Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification Classification de sécurité
SECRET

Originator Auteur
Jason Christie

Our file Notre référence

Your file Votre référence
2017FIN461457

Date
SEP 14 2017

TO / À: Paul Rochon
cc. Rob Stewart

FROM / DE: Rick Stewart

SUBJECT / OBJET: **Meeting of Deputy Ministers on the North American Free Trade Agreement (NAFTA)**

For information. To be read before your upcoming meeting with the NAFTA Chief Negotiator, senior officials from the Privy Council Office and other Deputy Ministers implicated by the NAFTA renegotiation.

Issue

You and other deputy ministers implicated in the renegotiation of the NAFTA, as well as senior officials from the Privy Council Office, will be briefed by the NAFTA Chief Negotiator, Steve Verheul. This note provides information on the overall state of play and key issues in the renegotiation in which the Department is implicated.

Background

Two rounds of negotiations have now taken place in late August in Washington and early September in Mexico City. A third round of negotiations is scheduled for September 23-27 in Ottawa and subsequent rounds are expected to occur roughly every three weeks until December.

[redacted]

Rick Stewart (369-5691)
Patrick Halley (369-4036)

Canada

s.15(1)(g)

s.21(1)(a)

s.21(1)(b)

s.21(1)(c)

Pages 2 to / à 7

are withheld pursuant to sections

sont retenues en vertu des articles

15(1)(g), 21(1)(a), 21(1)(b), 21(1)(c)

of the Access to Information Act

de la Loi sur l’accès à l’information

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Department of Finance Canada / Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de	Deputy Minister
Prepared by (name/initials/division) Préparé par (nom/initiales/division)	Jason Christie – ITF/ITP
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	

Approved by Approuvé par	
Chief Chef	Scott Winter SW
Director Directeur	Patrick Halley
General director Directeur général	Paul Samson
Assistant Deputy Minister Sous-ministre adjoint	Rick Stewart
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon

Remarks Remarques:

NAFTA meeting with Steve Verheul

File no. No de dossier	Date
2017FIN461457	

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité	PROTECTED B
Originator / Auteur	Awatif Elshibli
Our file / Notre référence	
Your file / Votre référence	2017FIN460352
Date	SEP 29 2017

SIGNED BY MINISTER

OCT 20 2017

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Change Related to the Harmonized Sales Tax (HST) in Newfoundland and Labrador**

For action. [redacted]

Issue

Newfoundland and Labrador Finance Minister and President of the Treasury Board, the Honourable Tom Osborne, wrote to you (letter attached) to advise you of the province's decision to reinstate the point-of-sale rebate for the provincial portion of the Harmonized Sales Tax (HST) on book sales effective January 1, 2018.

The letter requests that the Government of Canada take the necessary steps to implement the policy change. This note outlines the provincial and federal actions required to reinstate the Newfoundland and Labrador book rebate and includes a proposed reply letter to Minister Osborne.

Background

Up until 2017, Newfoundland and Labrador provided a point-of-sale rebate for the provincial portion of the HST on books. In its 2016 budget, however, the province announced that it would eliminate the rebate. The province also asked to adopt the federal rebate provided for books.

- Under the *Excise Tax Act*, a GST rebate can be claimed for books (including audio recordings of printed books and printed versions of religious scriptures) acquired by public libraries, educational institutions, as well as charities and qualifying non-profit organizations, prescribed by regulations, whose primary purpose is the promotion of literacy.

Necessary steps were taken by the federal and provincial governments and the elimination of the point-of-sale rebate on book sales took effect on January 1, 2017, as announced by the province. Federal regulations to implement the changes, *Regulations Amending Various GST/HST*

SADM: Andrew Marsland (613-369-3739)
Director: Sean Keenan (613-369-3766)

Sean
OCT 20 2017

Canada

s.14(a)

s.21(1)(a)

s.21(1)(b)

Regulations, No. 10, were published in the *Canada Gazette* on December 14, 2016 (SOR/2016-306).

In the attached letter to you dated August 22, 2017, Minister Osborne notified you that the province has decided to reinstate the point-of-sale rebate for the provincial portion of the HST on book sales effective January 1, 2018. [redacted]

Steps Required by the Provincial Government

Under the sales tax harmonization agreement with the province (the *Canada-Newfoundland and Labrador Comprehensive Integrated Tax Coordination Agreement* (CITCA)), the province has the flexibility to introduce/eliminate rebates in respect of the provincial component of the HST provided certain conditions are met. In particular, the province must:

1. Notify Canada at least 120 days before the effective date of the proposed change [redacted]
2. Make a public announcement at least 60 days before the effective date [redacted] and
3. Table in the provincial legislature an instrument in respect of the proposed amendment requesting a timely vote by the legislature.
    - [redacted]

[redacted]

Once the province satisfies the CITCA requirements, Canada is required to take the steps necessary to reinstate the Newfoundland and Labrador book rebate, in a timely manner.

[redacted]

Steps Required by the Federal Government

The HST is implemented under the federal *Excise Tax Act* and any change to the provincial component of the HST is implemented via federal regulation under the *Act*. As such, federal

s.14(a)

s.21(1)(a)

s.21(1)(b)

regulatory amendments will need to be made by Canada to complement the provincial book rebate and facilitate the delivery of the rebate at the point of sale by vendors.

[redacted]

Next Steps

[redacted]

s.14(a)

s.21(1)(a)

s.21(1)(b)

Minister of Finance   Ministre des Finances

Ottawa, Canada K1A 0G5

2017FIN460352

OCT 2 0 2017

The Honourable Tom Osborne, M.H.A.
Minister of Finance and President of the Treasury Board
Government of Newfoundland and Labrador
Main Floor, East Block Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6

Dear Minister:

I am writing to acknowledge your letter of August 22, 2017 in which you notified me of Newfoundland and Labrador's decision to reinstate the point-of-sale rebate for the provincial component of the Harmonized Sales Tax (HST) on book sales.

[redacted]

s.14(a)

s.21(1)(a)

Canada

[redacted]

Thank you for your letter and be assured that my officials will work with your officials going forward to execute Newfoundland and Labrador's policy change.

Your sincerely,

s.14(a)

s.21(1)(a)

The Honourable Bill Morneau, P.C., M.P.

c. The Honourable Diane Lebouthillier, P.C. M.P.

Newfoundland
Labrador

Government of Newfoundland and Labrador
Department of Finance
Office of the Minister

August 22, 2017

The Honourable Bill Morneau
Minister of Finance
90 Elgin Street
Ottawa, Ontario
K1A 0G5

The Honourable Diane Lebouthillier
Minister of National Revenue
555 MacKenzie Avenue
Ottawa, Ontario
K1A 0L5

Dear Ministers:

I am writing to apprise you of the Government of Newfoundland and Labrador's decision to reinstate the point of sale rebate of the provincial portion of the HST on book sales. It is the intention of the province that this change become effective for eligible purchases made after December 31, 2017.

I trust that Finance Canada, in conjunction with the Canada Revenue Agency, will proceed to take any actions necessary to implement the changes that are within their respective mandates. I anticipate that the necessary provincial regulatory amendments to provide authority that would allow for this change will be made without inordinate delay.

Should your officials need to contact the Government of Newfoundland and Labrador on this matter, please contact Mr. Jay Griffin, Director of Tax Policy at (709) 729-6847 or jgriffin@gov.nl.ca

Yours sincerely,

Tom Osborne

Honourable Tom Osborne, M.H.A.
Minister of Finance and
President of Treasury Board

Finance
August 22, 2017

Review of Provincial Tax System and Plan to Eliminate Book Tax Announced

The Honourable Tom Osborne, Minister of Finance and President of Treasury Board, today announced a review of the province's tax system, along with its plan to eliminate the provincial portion of the Book Tax.

To guide the review of the province's tax system, a five-person committee has been appointed with members having varying backgrounds in economics, taxation and public policy, with representation from the business, social and labour sectors. Members include:

- Steve Jerrett, Chairperson
- Peter Woodward
- Brian Bonnell
- Carol Furlong
- Marion Pardy (Very Rev. Dr.)

The review will be completed in September 2018 with the final report expected in November 2018 for consideration of all recommendations prior to Budget 2019-20.

In Budget 2016, the Provincial Government eliminated the 10 per cent provincial rebate on books. Today, Minister Osbourne will write the Federal Government to reinstate the rebate.

The main objectives of the independent tax review are to ensure the province's tax system is competitive and fair, identify ways to simplify the tax system and reduce costs for both government and tax payers. During the review, consideration will be given to whether the appropriate tax mix is applied to taxpayers as well as the progressivity of the tax system.

As committed to in The Way Forward: Realizing Our Potential, both personal and business taxes will be evaluated during the review (a full list of taxes to be reviewed are included in the backgrounder below). The scope of the review will consider revenue sources and new tax incentives including labour-based tax incentives for emerging industries and tax incentives for employers in the skilled trades who increase the number of apprentices they take on. The tax review will also consider the province's tax capacity, taking into account issues such as competitiveness and economic impacts.

Today's announcement follows on the Budget 2017-18 decision to reduce the Temporary Gas Tax by 12.5 cents per litre by December 31, 2017.The remaining four cents will be reviewed as part of the fall fiscal update.

Quotes

"Our government is committed to ensuring the province's tax system is fair to all residents, including seniors and people living on fixed outcomes. I thank the members of the committee for their contribution to this important work. Today's announcement to eliminate the provincial portion of the book tax and a review of our tax system marks a critical step in realizing that commitment. Ensuring the province's tax system is competitive, balanced and less cumbersome will help attract investment and provide an incentive for young families and businesses to put down roots in the province."
Honourable Tom Osborne
Minister of Finance and President of Treasury Board

"I would like to thank Minister Osborne for the opportunity to contribute to this tax review – I believe a fair, equitable, and competitive tax system is essential for the long-term fiscal stability of our province."
Steve Jerrett
Chair, Independent Tax Review Committee

- 30 -

Learn More

Provincial tax information - www.fin.gov.nl.ca/fin/tax_programs_incentives/

The Way Forward – thewayforward.gov.nl.ca

Follow us on Twitter: @GovNL and @FIN_GovNL

Media contact
Lisa Lawlor Finance
709-729-4839, 730-1568
lisalawlor@gov.nl.ca

BACKGROUNDER

Scope of the Tax Review Committee

Both personal and business taxes will be evaluated during the tax review and will include the following:

- Personal Income Tax
- Gasoline Tax

- Tobacco Tax
- Retail Sales Tax on Insurance Premiums
- Retail Sales Tax on Used Vehicles
- Harmonized Sales Tax
- Corporate Income Tax
- Health and Post-Secondary Education Tax (known as Payroll Tax)
- Insurance Companies Tax
- Financial Corporations Capital Tax

Biographies of Tax Review Committee Members

Steve Jerrett (Chair), located in Botwood, has over 25 years of experience in fiscal relations, economics, and management. Mr. Jerrett is currently the Chief Administrative Officer/Town Manager for the Town of Botwood. He previously worked for the Newfoundland and Labrador Medical Association, the College of Physicians and Surgeons of Newfoundland and Labrador, as an executive with Central Health Regional Health Authority, the Government of Nunavut's Department of Finance and with the Government of Newfoundland and Labrador with the Department of Finance and Executive Council. He holds a Masters in Economics from Acadia University.

Peter Woodward of Happy Valley-Goose Bay, is President and CEO of the Woodward Group of Companies, President of Labrador Motors and President of Markland Realty. He has previously served as Chair of the Labrador Health Corporation, Chair of the Labrador College and Chair of the Premier's Advisory Council.

Brian Bonnell, is a Charter Professional Accountant living and practicing in Corner Brook. He is currently a board member with several private businesses and has served as a past board member of the Atlantic Canada Opportunities Agency. He has also served as Chair of 2008 Newfoundland and Labrador Summer Games and as a manager and coach of the Newfoundland and Labrador Speed Skating team at three Canada Winter Games.

Carol Furlong, located in St. John's, has worked extensively within the labour movement, and also has a strong working background in consumer protection. She served on numerous national and provincial committees and currently sits on the Board of Directors for the Canadian Labour Institute.

Marion Pardy (Very Rev. Dr.), located in St. John's, has expertise in education, public speaking, respectful dialogue and working in multi-faith and community environments. She served as a board member on Stella's Circle for 24 years and continues her participation as Board Emeritus. She is also a director on the Religious Social Action Coalition and a member of the International Women's Forum and former Moderator of The United Church of Canada.

2017 08 22 1:15 p.m.

460352

Hamel, Carole (FIN)

From:	da Silva, Cynthia (FIN)
Sent:	August-25-17 9:49 AM
To:	Hamel, Carole (FIN)
Cc:	Gauthier3, Nathalie (FIN); Langens, Margaret (FIN)
Subject:	FW: Letter from Minister Osborne
Attachments:	img-825101444-0001.pdf

To print, please and thanks!

From: Chalke, Allie (FIN)
Sent: August-25-17 9:45 AM
To: Gauthier3, Nathalie (FIN) <nathalie.gauthier3@canada.ca>; da Silva, Cynthia (FIN) <cynthia.dasilva@canada.ca>; Langens, Margaret (FIN) <margaret.langens@canada.ca>
Subject: FW: Letter from Minister Osborne

Can we please register?

Thanks!

Allie

From: Connors, Heather [mailto:hconnors@gov.nl.ca]
Sent: August-25-17 8:46 AM
To: Chalke, Allie (FIN) <allie.chalke@canada.ca>; 'Diane.Lebouthillier@parl.gc.ca' <Diane.Lebouthillier@parl.gc.ca>
Subject: Letter from Minister Osborne

Page 20

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Minister's Office Correspondence

Correspondence from Federal / Provincial / Territorial Ministers / VIP

Briefing Note / Letter Requests:

Return Blue Dockets directly to DMO for processing

Requestor: Elliot

Date of Request: 9/9/17

Action

Reply for Minister ☑

Reply for Minister & Briefing note ☐

No Action Required / Close and File ☐

Note:

- Reply (**15 days** turnaround, unless otherwise specified)
- Reply & Briefing note (**5 days** turnaround, unless otherwise specified)

Attachments: ☐

Comments: ______

Office of the Minister of Finance | Cabinet du ministre des Finances

Ottawa, Canada K1A 0G5

2017FIN460352

SEP 0 8 2017

Ms. Susan Elliott
Executive Assistant to
The Honourable Tom Osborne, M.H.A.
Minister of Finance and President of the Treasury Board
Government of Newfoundland and Labrador
Main Floor, East Block, Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6

Dear Ms. Elliott:

On behalf of the Minister of Finance, the Honourable Bill Morneau, I acknowledge receipt of Minister Osborne's correspondence of August 22, 2017.

I will ensure that his correspondence is brought to the Minister's attention as soon as possible.

In the meantime, should you have any questions or wish to enquire as to the status of your correspondence, please do not hesitate to contact me directly at 613-369-5696.

Sincerely,

Elliot Hughes
Deputy Director – Tax Policy
The Office of the Honourable Bill Morneau – Minister of Finance

Canada

Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Minister of Finance	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Awatif Elshibli/369-3758 Chief / Chef Terence Brown/369-3757	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s)) Ryan Stammers	Mark Sylvest
Approved by Approuvé par	
Director Directeur	Sean Keenan
General Director Directeur général	Miodrag Jovanovic
General Director Directeur général	Brian Ernewein
Assistant Deputy Minister Sous-ministre adjoint	
Senior Assistant Deputy Minister Sous-ministre adjoint principal	Andrew Marsland
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques:	
File no. . No de dossier 2017FIN460352	Date SEP 28 2017

Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	(Sign on behalf of DM) (Signer au nom du SM)	☐
Associate Deputy Minister Sous-ministre déléguée	(Sign on behalf of DM) (Signer au nom du SM)	☐
Assistant Deputy Minister Sous-ministre adjoint(e)	(Sign on behalf of DM) (Signer au nom du SM)	☐

Tax: TPB

File location: G:\

Canada

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité: PROTECTED B

Originator/Telephone number / Auteur/Numéro de téléphone: Anne David, Mark Joshua

Our file / Notre référence: [redacted]

Your file / Votre référence: 2017FIN457500

Date: SEP 13 2017

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Canada Pension Plan Investment Board: Meeting with Dr. Heather Munroe-Blum and Mr. Mark Machin**

For information. To be read before your upcoming meeting with Heather Munroe-Blum and Mark Machin.

Issue

You will be meeting with Dr. Heather Munroe-Blum, Chair of the Canada Pension Plan Investment Board (CPPIB) Board of Directors, and Mr. Mark Machin, President and Chief Executive Officer of CPPIB. [redacted] This note provides speaking points for your meeting. [redacted]

1. Proposed Speaking Points for Meeting with CPPIB

[redacted]

Suggested Speaking Points

[redacted]

ADM: Leah Anderson (369-3620)
Director: Nicolas Moreau (369-5613)

Canada

s.14

s.16(2)(c)

s.18(b)

s.21(1)(a)

Pages 25 to / à 33

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sont retenues en vertu des articles

14, 18(b), 21(1)(a)

of the Access to Information Act

de la Loi sur l'accès à l'information

Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de **Minister of Finance**	
Prepared by: Préparé par : Anne David	
In consultation with: En consultation avec : Marie-Josée Lambert, Chief, Crown Corporations and Currency for	
Approved by / Approuvé par	
Director Directeur	Nicolas Moreau
Senior Advisor Conseiller principal	Peter Routledge
General Director Directrice générale	Annette Ryan
Assistant Deputy Minister Sous-ministre adjointe	Leah Anderson
Associate Deputy Minister and G7/G20 and FSB Deputy for Canada Sous-ministre délégué et représentant du Canada au G7/G20 et au CSF	Rob Stewart
Deputy Minister to see Sous-ministre à voir	Paul Rochon
Remarks / Remarques: **Canada Pension Plan Investment Board: Meeting with Dr. Heather Munroe-Blum and Mr. Mark Machin**	
File no. No de dossier 2017FIN457500	Date SEP 13 2017

Associate Deputy Minister and G7/G20 and FSB Deputy for Canada Sous-ministre délégué et représentant du Canada au G7/G20 et au CSF	**(Sign on behalf of DM) (Signer au nom du SM)**
Associate Deputy Minister Sous-ministre délégué	**(Sign on behalf of DM) (Signer au nom du SM)**
Assistant Deputy Minister Sous-ministre adjoint(e)	**(Sign on behalf of DM) (Signer au nom du SM)**

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité: PROTECTED B

Originator / Auteur(e): Anne David

Our file / Notre référence: [redacted]

Your file / Votre référence: 2017FIN461552

Date: SEP 19 2017

TO / À: Deputy Minister

s.16(2)(c)

FROM / DE: for Leah Anderson

SUBJECT / OBJET: **Bank of Canada: Board of Directors Meeting September 20-21, 2017**

For information. To be read before September 20, 2017.

Issue

You are scheduled to attend the next Bank of Canada Board of Directors' (the Board) meeting on September 20 and 21 in Ottawa. We understand Rob Stewart will attend on your behalf.

[redacted]

ADM: Leah Anderson (613-369-3620)
Director: Nicolas Moreau (613-369-5613)

s.18(b)
s.18(d)
s.21(1)(b)

Canada

Pages 36 to / à 40

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18(b), 18(d), 21(1)(b)

of the Access to Information Act

de la Loi sur l’accès à l’information

Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de **Deputy Minister**	
Prepared by: Préparé par : Anne David	
In consultation with: En consultation avec : Marie-Josée Lambert, Chief, Crown Corporations and Currency	
Approved by / Approuvé par	
Director Directeur	Nicolas Moreau
Senior Advisor Conseiller principal	Peter Routledge
General Director Directrice générale	Annette Ryan
Assistant Deputy Minister Sous-ministre adjointe	Leah Anderson
Associate Deputy Minister and G7/G20 and FSB Deputy for Canada Sous-ministre délégué et représentant du Canada au G7/G20 et au CSF	Rob Stewart
Deputy Minister to see Sous-ministre à voir	Paul Rochon
Remarks / Remarques: **Bank of Canada Board and Committee Meetings - September 20 and 21, 2017**	
File no. No de dossier 2017FIN461552	Date SEP 19 2017

Associate Deputy Minister and G7/G20 and FSB Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7/G20 et au CSF**	**(Sign on behalf of DM)** **(Signer au nom du SM)**
Associate Deputy Minister **Sous-ministre délégué**	**(Sign on behalf of DM)** **(Signer au nom du SM)**
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM — NOTE DE SERVICE

Security classification / Classification de sécurité: PROTECTED-B

Originator/Telephone number / Auteur/Numéro de téléphone: David Smith/Kevin English

Our file / Notre référence: [redacted]

Your file / Votre référence: 2017FIN461390

Date: SEP 1 3 2017

Memo to Deputy Minister

DMO.......................... Orig. + 4
Assoc. DM & G7 Deputy 1
EFP.......................... e-copy
C&C.......................... e-copy
LAW.......................... e-copy

s.16(2)(c)

TO / À: Paul Rochon

FROM / DE: Leah Anderson

SUBJECT / OBJET: **Financial Sector Forum – Heads of Agency Panel**

This note supports your participation at the Financial Sector Forum on September 14, 2017. You will be greeted in the Victoria Room by this year's lead organizer, Jason LaMontagne of OSFI, and seated at the head table with your fellow panelists. The Superintendent will stay for the duration of the event; however the other Agency Heads will likely depart following the session.

Issue

On September 14, 2017, you are scheduled to participate in a Heads of Agency panel at the Financial Sector Forum, from 9:15 a.m. to 10:45 a.m., 111 Sussex Drive. Lynn Patterson, Michèle Bourque, Lucie Tedesco and Jeremy Rudin will also participate on the panel. Attached are three questions that will be posed by the panel moderator and a few suggested thought starters for your consideration.

Background

The Financial Sector Forum is intended to be a one-day knowledge-sharing and team-building event organized by, and for, employees from the Bank of Canada, the Canada Deposit Insurance Corporation, the Department of Finance, the Financial Consumer Agency of Canada and the Office of the Superintendent of Financial Institutions. We expect attendance of roughly 250 delegates from the different agencies.

The Forum will launch with a Heads of Agency panel followed by five plenary sessions during which experts from each of the agencies will share their views and perspectives on broad questions related to the financial sector, in an interactive and fast-paced format. The agenda is attached for your information.

During the Heads of Agency panel, you will be asked to share your reflections on three questions (attached along with thought starters). You will have four minutes for each response.

Senior Advisor: Peter Routledge (369-4013)

Canada

Brigitte Phaneuf, Senior Director Small Medium Sized Banks Division at OSFI will moderate the panel.

Attachments (2):

Financial Sector Forum: Heads of Agency Panel – Questions and Thought Starters
Financial Sector Forum: Agenda

Attachment 1
Heads of Agency Panel – Questions and Thought Starters

<u>Question 1</u>

The 'what keeps you up at night?' question.

What, in your view, is the greatest threat to the stability of the overall Canadian financial system?

And I am leaving this question purposely high level, but what is out there that you see as a potential threat to the soundness of the system?

Order: J. Rudin, M. Bourque, L. Tedesco, L. Patterson, P. Rochon
(20 minutes – 4 minutes each)

Macro view:

- *Working through period of adjustment -- Federal Reserve / ECB topering, Chino restructuring, centrol bonk rote normalizotion, recopitolization / restructuring of certoin Europeon bonks.*
- *NAFTA negotiotions and geopolitical environment (e.g. North Koreo) could cause markets to become skittish.*
- *Conadion GDP growth strongest amongst G7 nations in 2017.*
- *Conodian financiol system is functioning well; reguloted sector is more resilient on o globol bosis following post crisis reforms.*

Economic Stobility and Risks to Conodion Households

- *Greatest threot to economic growth – high level of household indebtedness and elevoted house prices in our two lorgest cities; factors are not coincidental, rother self-reinforcing.*
- *Non-omortizing-mortgoge household debt is olso increosing (e.g. outo loons, HELOCs).*
- *Cyclically, want to ensure thot lender ond borrower vulnerabilities ore contained – particularly in those geogrophies where household finonciol leverage is highest.*
- *Appreciote OSFI for its work on capitol standards ond reinforcing prudent lending; the Bonk of Canodo for its work on vulnerobilities, ond CMHC for its anolysis ond odvice with regards to the housing sector.*
- *Deportment continues to assess the housing finonce fromework to protect the economy from downside risks.*
- *Also collaborating with provinces and municipolities (Greater Voncouver Area, Greater Golden Horseshoe) to ossess supply issues and interoctions with demand.*

[redacted]

Question 2

Now that we know what concerns you have about the external environment, what is the most challenging internal issue facing your organization today?

And what is your organization doing to address this challenge?

Order: P. Rochon, L. Patterson, L. Tedesco, M. Bourque, J. Rudin ***(20 minutes – 4 minutes each)***

Internal Challenge

- ***Our greatest asset is the excellent people we have in our organizations.***
- ***Complex nature of policy areas within the financial sector means there is an ongoing need for technical and academic skills. Good policy development also requires good judgment.***
- ***Retaining and attracting talent is a key priority so that we achieve the best policy outcomes.***
- ***A challenge here for us all is that we are competing with the private sector, in particular the financial sector, for talent.***

What are we doing?

- ***The Department undertakes a variety of approaches, including University Recruitment, professional training (e.g. CFA) and interchanges between the Department and the various agencies. We also need to think about other forms of outreach and approaches—e.g. options for a targeted financial sector resourcing strategy?***
- ***We must also continue to foster workplace well being (e.g. workloads, stress, etc.).***
- ***We have a tremendous value proposition in terms of the purpose and impact of our work.***

s.14

s.21(1)(b)

Question 3

One of the benefits of participating in international fora is the observation of ideas, models and practices used by global counterparts. What would you suggest could be done for Canada to derive even greater benefit from our interactions with our international peers?

Order: J. Rudin, P. Rochon, M. Bourque, L. Patterson, L. Tedesco *(20 minutes – 4 minutes each)*

- *Canada fared well through the financial crisis.*
- *World has changed a lot in the last 10 years.*
- *Many of the financial sector questions we face are also being asked elsewhere. For example, open banking is being assessed and considered in the US and Australia.*
- *IMF, FSB and other international fora provide opportunities to learn from other jurisdictions. Both through direct interaction, and thematic reviews of best practices in various jurisdictions.*
- *We as a department are quite well plugged into international fora – the questions we must consistently ask ourselves are:*
  - *Are we open-minded enough in receiving advice and lessons learned from our global colleagues?*
  - *What is the risk that our relative success throughout the Global Financial Crisis gives us biases that obscure our perception of prospective risks?*
- *[International interchanges, like those we undertake among our organizations, could also be an avenue]*

FINANCIAL SECTOR FORUM

INNOVATIVE | INFORMATIVE | INTERACTIVE

SEPTEMBER 14, 2017

8:30	Registration/Refreshments
9:00	MC Opening
9:15	**Heads of Agencies:** A View from the Top
10:45	**Break**
11:00	**OSFI:** Supervising Canadian D-SIBs: A Framework for Success
11:45	**CDIC:** Perspectives on Resolving a Small or Mid-Sized Bank
12:30	**Lunch**
1:30	**FCAC:** Through a Consumer Lens: Empowering and Protecting Canadians
2:15	**Bank of Canada:** Financial Sector Innovation + Technology
3:00	**Break**
3:15	**Department of Finance:** Financial Sector Policy Context
4:00	**End**

SADC | CDIC

OSFI | BSIF

BANK OF CANADA
BANQUE DU CANADA

Department of Finance Canada | Ministère des Finances Canada

Agence de la consommation en matière financière du Canada | Financial Consumer Agency of Canada

(FOLD HERE) (PLIER ICI)

Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Deputy Minister	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) David Smith/Kevin English KE	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
Approved by Approuvé par	
Director Directeur	
Special Advisor Conseiller spécial	Peter Routledge
General Director Directrice générale	Annette Ryan
Assistant Deputy Minister Sous-ministre adjoint	Leah Anderson LA
Associate Deputy Minister & G7/G20/FSB Deputy for Canada Sous-ministre délégué et représentant du Canada au G7/G20/CSF	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques:	
File no. No de dossier 2017FIN461390	Date

Associate Deputy Minister & G7/G20/FSB Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7/G20/CSF**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre délégué**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité	SECRET
Originator/Telephone number / Auteur/Numéro de téléphone	Justin Brown
Our file / Notre référence	
Your file / Votre référence	2017FIN461839
Date	SEP 27 2017

TO / À: Paul Rochon

Memo to Deputy Minister
DMO.......................Orig. + 4
Assoc. DM & G7 Deputy...... 1
EFP........................e-copy
C&C........................e-copy
LAW........................e-copy

FROM / DE: Leah Anderson

SUBJECT / OBJET: **Senior Advisory Committee Meeting – October 2, 2017**

This note is for information and should be read prior to the Senior Advisory Committee meeting on October 2, 2017.

You will be chairing a meeting of the Senior Advisory Committee (SAC) on October 3, 2017, from 1:00 p.m. to 3:30 p.m. This note presents background information for each agenda item (agenda attached).

1. Vulnerabilities (Bank of Canada – document attached)
2. Housing (Finance – document attached)
3. [redacted]
4. Cyber Security (Finance/OSFI/Bank of Canada – document attached)
5. Deposit Insurance Review (Finance/CDIC – document attached)
6. Updates (Finance – no document)

1. Financial System Vulnerabilities and Risks

The Bank of Canada (the Bank) will lead the presentation.

Background

[redacted]

Leah Anderson 613-369-3620
Lisa Pezzack 613-369-3864

s.18(d)

s.21(1)(a)

s.21(1)(b)

[redacted]

Concerns over housing market imbalances have diminished in Toronto, but re-emerged in Vancouver. Vancouver is seeing price growth pick up again following a slowdown in the latter half of 2016, while Toronto has been cooling since April, though recent data suggest the Toronto market is stabilizing. The Bank also highlights that price growth in the condo segment in both markets in 2017 has been stronger relative to single-family homes. For Toronto, it is still too early to draw conclusions on the long-term trajectory of the market.

[redacted]

<u>2. Housing</u>

You may wish to turn to Leah Anderson to lead the discussion.

<u>Background</u>

[redacted]

[redacted]

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

[redacted]

4. Cyber Security

You may wish to turn to Annette Ryan to lead the discussion.

Background

Cyber security is a priority issue for financial institutions, their regulators and governments. There are a number of initiatives, both at the national and international levels, that seek to reinforce cyber security practices and bolster the resilience of the financial sector. The attached brief provides an overview of these initiatives.

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

s.69(1)(g) re: (e)

[redacted]

5. Deposit Insurance Review

You may wish to turn to Leah Anderson to lead the discussion.

Background

[redacted]

Nominee Brokered Deposits

Nominee brokers are brokers that have a contractual arrangement with a member institution allowing them to place deposits on behalf of their clients in nominee name. This is done in the form of a trust and therefore receives coverage as a trust deposit for deposit insurance purposes.

Trust deposits receive separate coverage from funds held in other deposit categories, as long as certain information is disclosed to the member institution prior to a failure. Trustees must ensure the name, address and interest of each beneficiary is disclosed on the member institution's records.

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

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18(d), 21(1)(a), 21(1)(b)

of the Access to Information Act

de la Loi sur l’accès à l’information

[redacted]

Next Steps

[redacted]

6. Updates

You may wish to turn to Leah Anderson to lead the discussion.

Background

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

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Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de Paul Rochon	
Prepared by (name/initials/division) Préparé par (nom/initiales/division) Justin Brown JB	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
Approved by Approuvé par	
Director Directeur	Lisa Pezzack
Special Advisor Conseiller spécial	Peter Routledge
General Director Directeur général	Annette Ryan
Assistant Deputy Minister Sous-ministre adjoint	Leah Anderson
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques: **Senior Advisory Committee Meeting – October 2, 2017**	
File no. No de dossier 2017FIN461839	Date

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐

SAC Meeting Agenda
October 2, 2017
1:00 pm to 3:30 pm
90 Elgin Street
Boardroom 16030, 16th Floor

1) **Vulnerabilities** (Bank of Canada)

2) **Housing Policy Options** (Finance)

3) [redacted]

4) **Cyber Security** (Finance/OSFI/Bank of Canada)

5) **Deposit Insurance Review** (Finance/CDIC)

6) **Updates** (Finance)

s.18(d)

s.21(1)(b)

[redacted]

[redacted]

s.18(d)

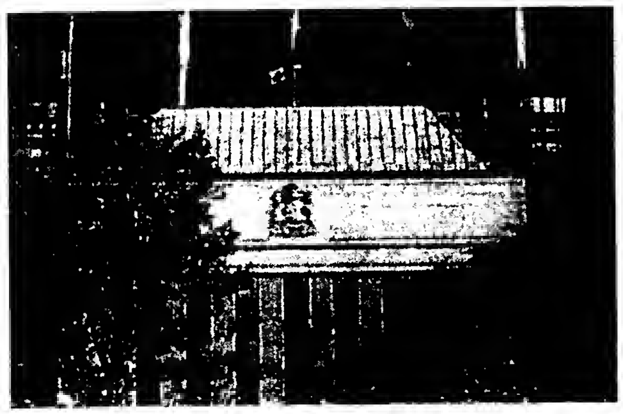
s.21(1)(b)

PROTECTED B

BANK OF CANADA
BANQUE DU CANADA

Financial System Vulnerabilities and Risks

Presentation to SAC
2 October 2017



Don Coletti
Advisor

www.bank-banque-canada.ca

BANK OF CANADA
BANQUE DU CANADA

Key Messages

1. Near-term outlook for housing is highly uncertain, especially in the GTA

2. Changes to mortgage finance policy will continue to improve the quality of new lending

3. [redacted]

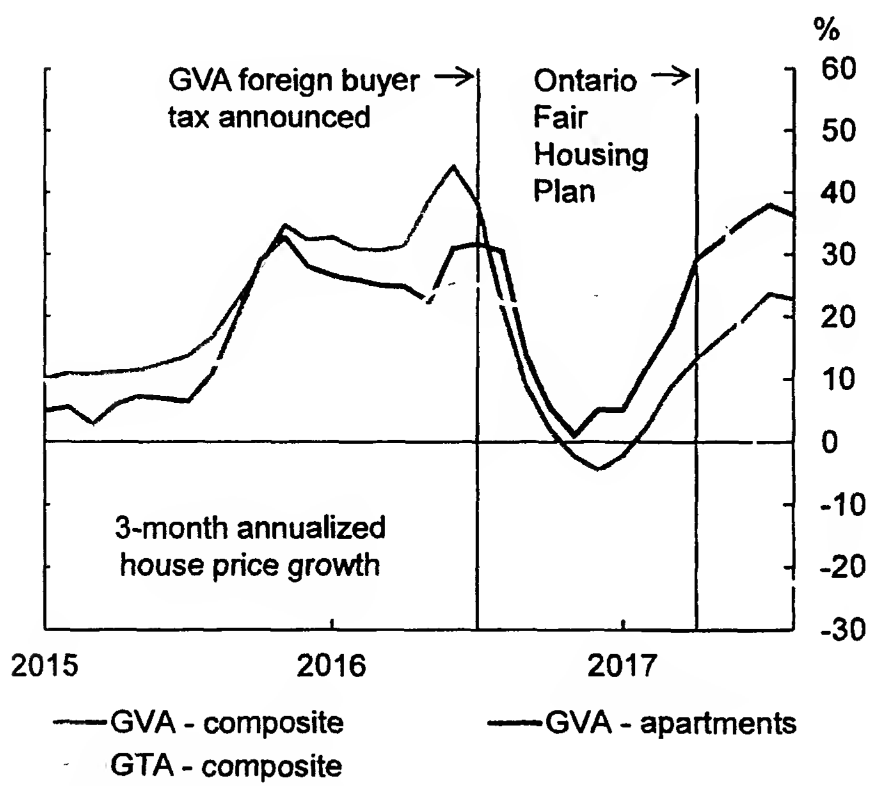
4. [redacted]

s.18(d)
s.20(1)(c)
s.21(1)(a)
s.21(1)(b)

BANK OF CANADA
BANQUE DU CANADA

Near-term outlook for housing is highly uncertain, especially in the GTA

The GTA market cooled rapidly after the foreign buyers tax, similar to the GVA



Note: Series are seasonally adjusted. Last observation: August 2017

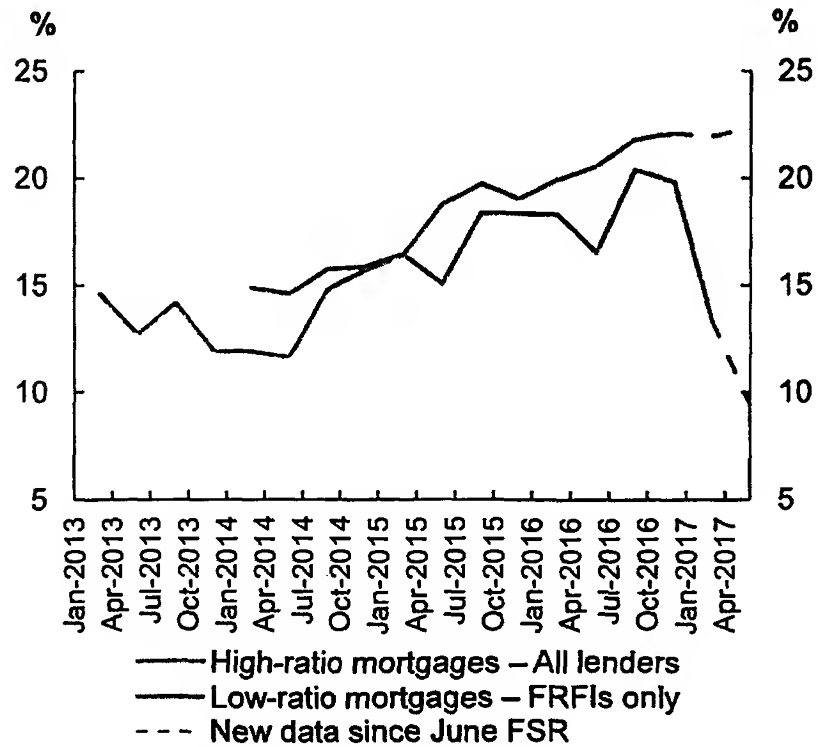
Several other policy changes still to work their way through

- 2016 mortgage finance rules
- B-20
- 5-year fixed mortgage rates up 60 bps since June

- Vulnerabilities heighten uncertainty
  - Elevated household indebtedness
  - Extrapolative expectations

Changes to mortgage finance rules will continue to improve the quality of new lending

The share of high-ratio mortgages with LTI >450% is falling; not so for low-ratio



Source: Department of Finance, Banks' regulatory filings, Bank of Canada calculations

Last observation: 2017Q2

B-20 modifications will improve the quality of low-ratio lending

- Estimated 8% of 2016 low-ratio mortgages originations would not pass the interest rate stress test
  - Curtails high-LTI mortgages
- Low-ratio represents 70% of FRFI new mortgages
  - Peak GDP impact of -0.3%
- Risk-sensitive LTV calculation will help contain risk from growth in HELOCs and refinancing activities

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18(d), 21(1)(a), 21(1)(b)

of the Access to Information Act
de la Loi sur l’accès à l’information

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18(d), 20(1)(c), 21(1)(b)

of the Access to Information Act

de la Loi sur l’accès à l’information

BANK OF CANADA
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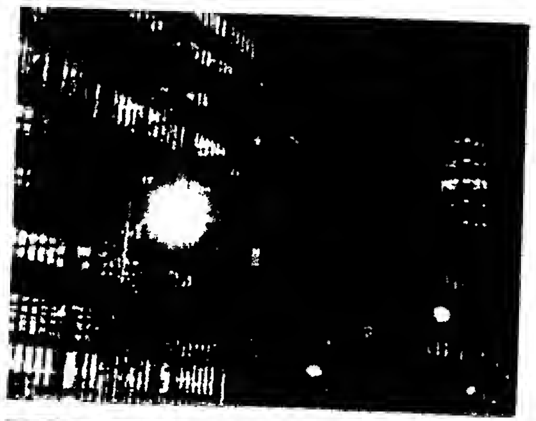
Questions?



www.bank-banque-canada.ca

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s.21(1)(b)

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s.18(d)

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s.18(d)

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s.18(d)

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s.18(d)

s.21(1)(a)

s.21(1)(b)

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

s.18(d)

s.21(1)(a)

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[redacted]

s.18(d)

s.21(1)(a)

s.21(1)(b)

BANK OF CANADA
BANQUE DU CANADA

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25 September 2017

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s.18(d)
s.21(1)(a)
s.21(1)(b)

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s.18(d)

s.21(1)(a)

s.21(1)(b)

s.69(1)(g) re: (e)

[redacted]

s.18(d)
s.21(1)(a)
s.21(1)(b)
s.69(1)(g) re: (e)

s.18(d)
s.21(1)(a)
s.21(1)(b)

Cyber Security Update
SAC, October 2, 2017

Objectives:

Provide SAC members with an update on financial sector cyber-related initiatives / engagement activities and agree on next steps.

Overview:

Financial Sector Initiatives	
[redacted]	
Communications Security Establishment Powers	Legislation tabled June 2017 [redacted]
International Work	
G7 Experts Group on Cyber Security	[redacted]
Canada's G7 Presidency	
G20 / Financial Stability Board	Report to G20 ministers due October 2017
CPMI-IOSCO Working Group on Cyber Resilience for FMIs	Workplan extends to end-2019

s.21(1)(b)
s.69(1)(g) re: (e)

Introduction:

Cyber security threats are a growing concern due to their potential to disturb or disrupt financial services. Fears over the theft of personal information, financial loss and compromised individual privacy can erode consumer trust and confidence in the marketplace.

For example, in July of 2017 Equifax, an Atlanta based credit monitoring company identified a substantial data breach where an unspecified number of Canadian and British users, as well as up to 143 million Americans had confidential financial information (including social security numbers) stolen. This financial cyber attack will likely take millions of dollars as well as multiple years for all individuals to fully recover from, and the company has suffered a severe financial and reputational loss.

Cyber security is a priority issue for the financial sector, the Government of Canada, and internationally. The Department of Finance (Finance) acts as a policy, legislative and communications hub for financial sector cyber issues, bringing together the views of industry, agency partners, and the broader Government of Canada to support a cohesive strategy. The Office of the Superintendent of Financial Institutions (OSFI) and the Bank of Canada (the Bank) ensure that federally-regulated financial institutions and designated financial market infrastructures are applying the appropriate cyber risk frameworks and contribute their expertise to broader Canadian and international initiatives.

The paper below outlines ongoing cyber security initiatives of importance to Senior Advisory Committee (SAC) members. Following the discussion at sub-SAC, [redacted]

[redacted]

s.21(1)(b)

Financial Sector Initiatives:

A) <u>OSFI cross-sector cyber review</u>

Cyber risk is a key concern for OSFI and is elevated by the trend to greater reliance on financial technologies and outsourcing or other supplier arrangements. OSFI is conducting cyber security reviews of a select number of Federally Regulated Financial Institutions (FRFIs) [redacted]

s.16(1)(c)
s.20(1)(c)
s.21(1)(a)
s.21(1)(b)

B) <u>Further Work to Assess Cyber Resilience of Financial Market Infrastructures (FMIs)</u>

In 2015, the Bank of Canada (the Bank) asked systemically important FMIs to assess their cyber risk management practices against the National Institute of Standards and Technology (NIST) Cybersecurity Framework. Based on the inputs provided, the Bank identified and communicated a list of recommendations and priorities for FMIs (CDCC, CDSX and LVTS) and requested that they provide regular updates on their progress in addressing these priorities. Since 2015, the operators of the FMIs, TMX and Payments Canada, have reported considerable progress in meeting these priorities, although further work remains to fully address them, as well as to respond to the ever-evolving landscape of cyber threats. Although all priorities were to have been addressed in 2018, there is likely to be some remaining work to do in 2019.

In June 2016, CPMI-IOSCO published the Guidance on cyber resilience for financial market infrastructures (cyber guidance) to assist FMIs in enhancing their cyber resilience. The guidance is intended to supplement the Principles for FMIs, which the Bank has adopted as its risk management standards for oversight of designated FMIs. The Bank is developing an assessment tool that will help it to evaluate FMIs' cyber resilience practices against the CPMI-IOSCO guidance. Future assessments will be focused on any critical gaps that exist between the NIST framework and the cyber guidance. For 2018, the Bank is considering asking FMIs to perform a table top exercise with the Bank in order to examine how they would recover from a cyber

attack. The results of the tabletop will allow the Bank to understand how long it would take the FMI to recover and the constraints that drive the recovery time. This information will inform the Bank with regards to next steps for enabling the Recovery Time Objective (RTO) of 2 hours that is part of the CPMI-IOSCO cyber guidance.

C) <u>Canadian Financial Services – Cybersecurity Governance Council (CFS – CGC)</u>

The Department of Finance holds quarterly calls with the co-chairs of the CFS-CGC. [redacted]

Government of Canada initiatives:

A) <u>Public Safety's review of Cyber Threats to Critical Infrastructure:</u>

Following public consultations, the Department of Public Safety published a consultation report on its website. Three themes emerged in the Cyber Review results:

- **First, there is a wide-ranging need for improved cyber security skills, information sharing, and awareness. Cyber skills shortages in the workforce make it challenging for organizations to improve their cyber security, while barriers to information sharing make it difficult for organizations to understand changing threats and vulnerabilities. Awareness is needed across all demographics and public and private sectors.**
- **Second, there is support for law enforcement to address cybercrime while also protecting privacy in cyberspace. Participants expressed concern about the rising threat of cybercrime.**
- **Third, there were calls for federal leadership on cyber security. This includes clarifying cyber security roles, responsibilities, and accountabilities within the federal government, as well as establishing a clear focal point for working with external stakeholders. There were calls from industry and critical infrastructure leaders for national cyber security standards or legislation to compel organizations to improve their cyber security.**

Stakeholders also want the federal government to take a leading role in cyber security to foster national collaboration among Canada's communities of cyber security experts, to drive investment in cyber security industry, and to safeguard rights and freedoms in cyberspace. The information gathered during the Cyber Review is now being used to inform policy and program decisions that will advance cyber security capability, resilience and innovation.

[redacted]

s.21(1)(b)

s.69(1)(g) re: (e)

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21(1)(b), 69(1)(g) re: (e)

of the Access to Information Act

de la Loi sur l'accès à l'information

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C) **Communications Security Establishment**

Bill C-59

Bill C-59 was tabled shortly before the summer recess. Under the proposed legislation, CSE would be authorized to extend its cyber protection activities to include private networks of importance to the Government of Canada, with the consent of the owner or operator of the

s.21(1)(b)

s.69(1)(g) re: (e)

network (see annex 1 for some key provisions of the Bill). The proposed legislation would also enable the Minister of Defence to designate, by order, any electronic information, any information infrastructures or any class of electronic information or information infrastructures as electronic information or information infrastructures — as the case may be — of importance to the Government of Canada.

[redacted]

[redacted]

s.21(1)(b)

s.69(1)(g) re: (e)

International work:

A) <u>G7 Cyber Expert Group on Cyber Security and Canada's G7 Presidency</u>

Canada will assume presidency of the G7 in 2018. We have started to develop a proposed programme of work. The G7 Cyber Experts Group (CEG), which was set up in 2015, has been advancing work to bolster the resilience of the financial sector across G7 members. [redacted]

B) <u>G20 and the Financial Stability Board</u>

In March 2017, G20 Finance Ministers and Central Bank Governors agreed to promote the resilience of financial services and institutions in G20 jurisdictions against the malicious use of Information and Communication Technologies (ICT). To this end, the Financial Stability Board (FSB) was asked to undertake a stock-take of existing relevant public regulations and supervisory practices in G20 jurisdictions. [redacted]

The FSB is now finalizing its report, which will be presented to G20 Ministers in October. [redacted]

s.15(1)(g)

s.21(1)(b)

[redacted]

Proposed Next Steps:

The cyber file will intensify over the coming months, with many moving parts, at different levels. [redacted]

s.21(1)(a)

s.21(1)(b)

Annex1: Bill C-59: Key provisions

http://www.parl.ca/DocumentViewer/en/42-1/bill/C-59/first-reading#enH2829

Mandate

16 (1) The Establishment is the national signals intelligence agency for foreign intelligence and the technical authority for cybersecurity and information assurance.

Aspects of the mandate

(2) The Establishment's mandate has five aspects: foreign intelligence, cybersecurity and information assurance, defensive cyber operations, active cyber operations and technical and operational assistance.

Foreign intelligence

17 The foreign intelligence aspect of the Establishment's mandate is to acquire, covertly or otherwise, information from or through the global information infrastructure, including by engaging or interacting with foreign entities located outside Canada or by using any other method of acquiring information, and to use, analyse and disseminate the information for the purpose of providing foreign intelligence, in accordance with the Government of Canada's intelligence priorities.

Cybersecurity and information assurance

18 The cybersecurity and information assurance aspect of the Establishment's mandate is to
(a) provide advice, guidance and services to help protect
(i) federal institutions' electronic information and information infrastructures, and
(ii) electronic information and information infrastructures designated under subsection 22(1) as being of importance to the Government of Canada; and
(b) acquire, use and analyse information from the global information infrastructure or from other sources in order to provide such advice, guidance and services.

Defensive cyber operations

19 The defensive cyber operations aspect of the Establishment's mandate is to carry out activities on or through the global information infrastructure to help protect
(a) federal institutions' electronic information and information infrastructures; and
(b) electronic information and information infrastructures designated under subsection 22(1) as being of importance to the Government of Canada.

Active cyber operations

20 The active cyber operations aspect of the Establishment's mandate is to carry out activities on or through the global information infrastructure to degrade, disrupt, influence, respond to or interfere with the capabilities, intentions or activities of a foreign individual, state, organization or terrorist group as they relate to international affairs, defence or security.

Technical and operational assistance

21 The technical and operational assistance aspect of the Establishment's mandate is to provide technical and operational assistance to federal law enforcement and security agencies, the Canadian Forces and the Department of National Defence.

Designation

22 **(1)** The Minister may, by order, designate any electronic information, any information infrastructures or any class of electronic information or information infrastructures as electronic information or information infrastructures — as the case may be — of importance to the Government of Canada.

Annex 2: G7 Expert Group Work Programme

Effectiveness Assessments:

In order to establish the most effective approaches to the assessment of cybersecurity, the G7 Cyber Expert Group will conduct further work to:

- Analyse current approaches to the assessment of cybersecurity and how they compare (the aspects of cybersecurity addressed, the level of assurance provided, their relative cost and complexity);
- Consider respective roles of firms, third parties (e.g., auditors) and public authorities in the assessment process and how assessments can be carried out in ways that provide sufficient assurance at the level of the individual firm and the sector as a whole; and
- Review the comparability of results across firms and between sectors and assess in what way results are or can be shared between authorities to avoid duplication of assessments on firms.

Third Party and Consumer Risks:

To assess potential common vulnerabilities arising from third-party and customer risks, the G7 Cyber Expert Group will conduct further work to:

- Share methodologies through which third-party relationships and their importance to the delivery of key services which support the delivery of economic functions within G7 finance systems can be evaluated, including identifying third-party risks which individual market participants may be unable to detect in isolation such as vendor concentrations or common vulnerabilities;
- Consider strategies to mitigate the risks generated by financial sector dependencies on third parties that have the potential to impact financial stability; and
- Review routes to strengthen cybersecurity in customers and counterparties (without adverse impact on financial inclusion).

Coordination with other critical sectors:

In order to improve coordination with other critical sectors on cybersecurity and resilience, the G7 Cyber Expert Group will conduct further work to:

- Assess finance sector dependencies on other sectors of the economy;
- Consider approaches for aligning cybersecurity and resilience frameworks between the finance sector and other relevant sectors of the economy;
- Review arrangements for cross-sector information-sharing on threats and vulnerabilities and for incident management where significant cyber-attacks occur.

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of the Access to Information Act

de la Loi sur l'accès à l'information

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s.21(1)(a)

s.21(1)(b)

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s.21(1)(a)
s.21(1)(b)

[redacted]

s.21(1)(a)
s.21(1)(b)

[redacted]

s.21(1)(a)

s.21(1)(b)

Deposit Insurance Review – [redacted]

Summary

- Budget 2014 announced the launch of a comprehensive review of Canada's deposit insurance framework to ensure that it provides adequate protection for the savings of Canadians.

[redacted]

- Budget 2017 announced the Government's intent to introduce legislative amendments to modernize and enhance Canada's deposit insurance framework.

[redacted]

Issue:

[redacted]

Background:

[redacted]

Nominee brokers are brokers that have a contractual arrangement with a member institution (MI) allowing them to place deposits on behalf of their clients in nominee name. This is done in the form of a trust and therefore receives coverage as a trust deposit for deposit insurance purposes. Nominee brokers tend to be large brokerage firms and are members of either the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association (MFDA).

Trust deposits receive separate coverage from funds held in other deposit categories (e.g., deposits in one name, joint deposits, deposits held in RRSPs). Coverage extends to each beneficiary up to $100,000, as long as certain information is disclosed to the MI prior to failure.

[redacted]

s.21(1)(a)

s.21(1)(b)

Trustees must ensure the name, address and interest of each beneficiary is disclosed on the MI's records.

For certain trustees (e.g., law firms, public trustees), unique alpha-numeric IDs in lieu of names and addresses can be used to preserve client confidentiality. Deposits made by brokers as nominees for clients (nominee brokered deposits) are held in trust and brokers can use an ID to mask client information. Under the Canada Deposit Insurance Corporation's (CDIC) *Joint and Trust Account Disclosure By-law,* trustees are required to disclose, on the records of the MI where the deposit is held, the names, addresses and beneficial interests at least once a year ("annual disclosure").

Trust deposits, and consequently nominee brokered deposits, are aggregated for the purposes of calculating deposit insurance coverage. Once aggregated, the $100,000 limit for the trusts category of deposit insurance is applied. All deposits made through the same nominee broker for the same beneficiary would be aggregated (regardless of whether it was individual, jointly held, RESP, or RDSP). The exception is for certain registered products where the trusteeship of the plan is ignored (RRSP, RRIF and TFSA).[2]

[redacted]

Objectives

[redacted]

s.21(1)(a)

s.21(1)(b)

[2] See Examples 1 and 2 in Annex.

[redacted]

s.21(1)(a)

s.21(1)(b)

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s.21(1)(a)

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s.21(1)(a)
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s.21(1)(b)

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s.21(1)(a)

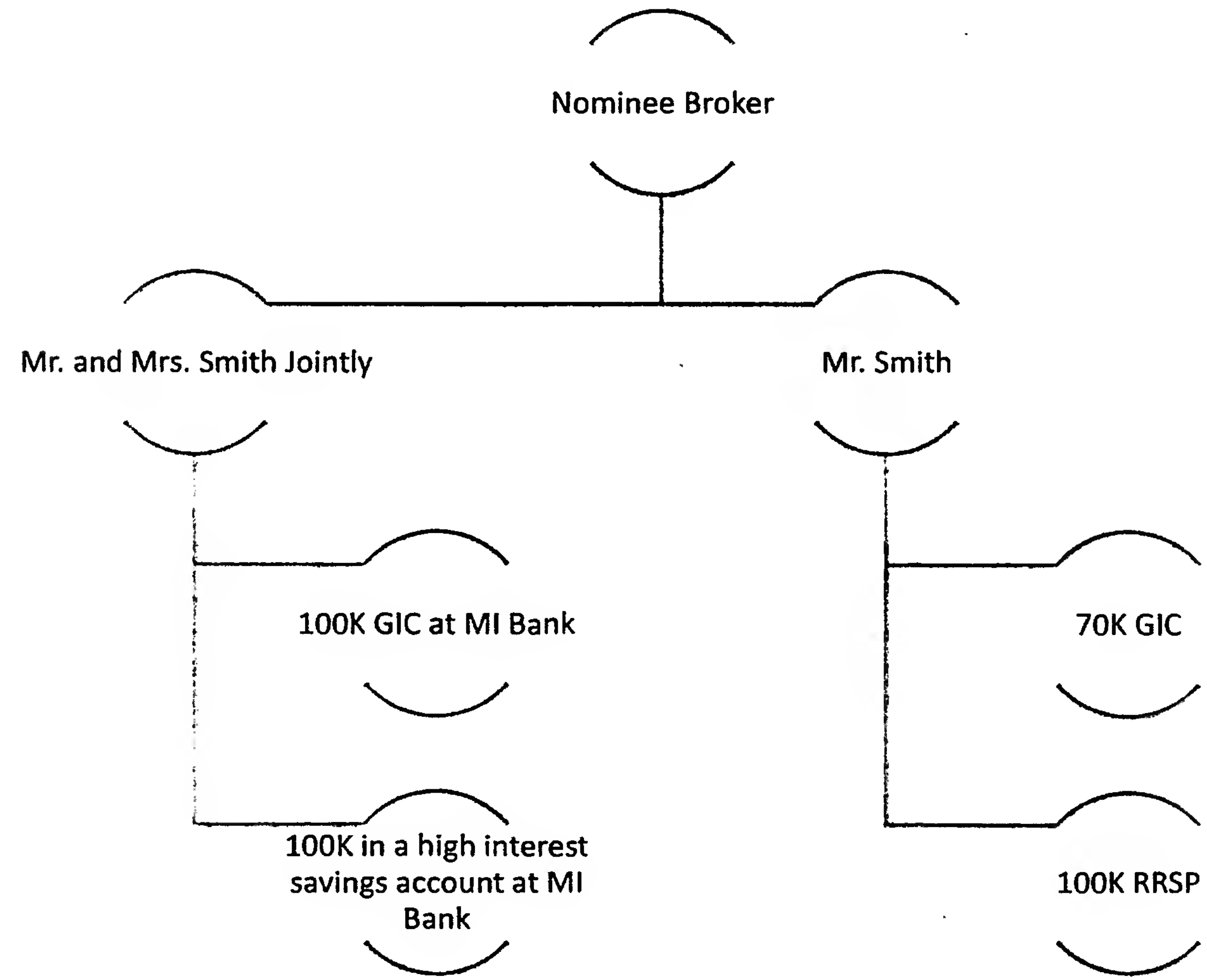
s.21(1)(b)

[redacted]

s.21(1)(a)

s.21(1)(b)

Example 1 – Current Aggregation Rules



[redacted]

[redacted]

Example 1 – MI Records

100K GIC at MI Bank

- 12345ABCDE
- 67890ABCDE

100K in a high interest savings account at MI Bank

- 12345ABCDE
- 67890ABCDE

70K GIC at MI Bank

- 12345ABCDE

100K RRSP

- 24680ABCDE

Example 1 – Coverage

12345ABCDE (Mr. Smith)	170K in Deposits at MI Bank (50K jointly in a GIC; 50K jointly in a high interest savings account; 70K GIC)	100K of deposit insurance coverage
67890ABCDE (Mrs. Smith)	100K in deposits at MI Bank (50K jointly in a GIC and 50K jointly in a high interest savings account)	100K of deposit insurance coverage
24680ABCDE (Mr. Smith's RRSP)	100K in deposits at MI Bank (100K RRSP)	100K of deposit insurance coverage

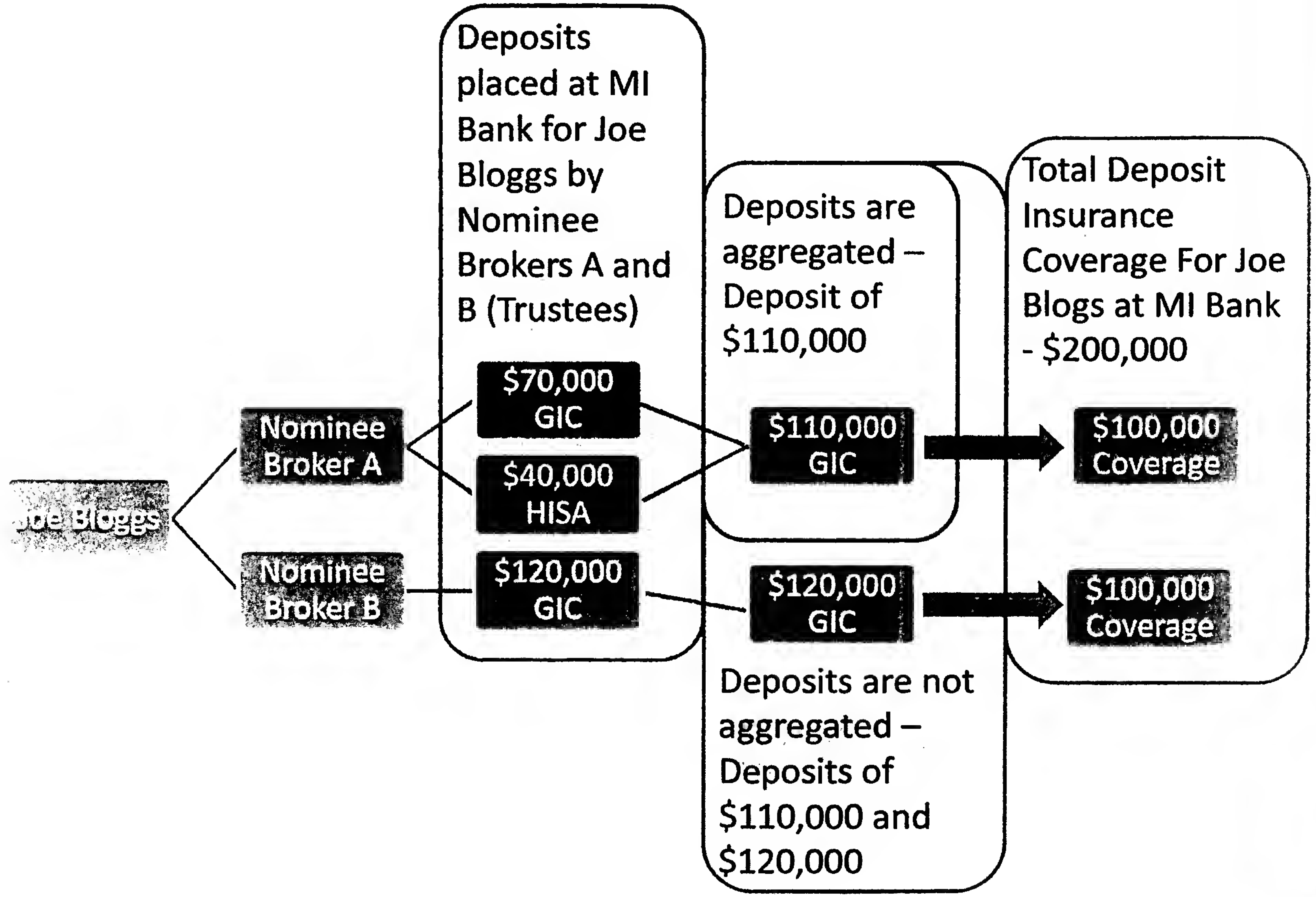
[redacted]

3

[redacted]

[redacted]

Example 2 – Current Aggregation Rules



Pages 112 to / à 114

are withheld pursuant to sections

sont retenues en vertu des articles

21(1)(a), 21(1)(b)

of the Access to Information Act

de la Loi sur l'accès à l'information

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Memo to Deputy Minister

DMO.............................Orig. + 4
Assoc. DM & G7 Deputy 1
EFP..................................e-copy
C&C.................................e-copy
LAW.................................e-copy

Security classification / Classification de sécurité	SECRET
Originator/Telephone number / Auteur/Numéro de téléphone	Paula Bolyea/Cassandra Visser
Our file / Notre référence	
Your file / Votre référence	2017FIN461107
Date	SEP 2 2 2017

TO / À: Paul Rochon

FROM / DE: Leah Anderson LA

SUBJECT / OBJET: **Letter to the Privy Council Office** [redacted]

ADM: Leah Anderson (613-369-3620)
Director: Eleanor Ryan (613-369-3904)

Canada

s.69(1)(g) re: (e)

Pages 116 to / à 121

are withheld pursuant to section

sont retenues en vertu de l'article

69(1)(g) re: (e)

of the Access to Information Act

de la Loi sur l’accès à l’information

(FOLD HERE) (PLIER ICI)

Department of Finance Canada | Ministère des Finances Canada

For Signature by / Information of À signer par / Pour l'information de	Deputy Minister
Prepared by (name/initials/division) Préparé par (nom/initiales/division)	Cassandra Visser Paula Bolyea
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	Manuel Dussault Jean-François Girard (FID)
Approved by	Approuvé par
Director Directeur	Eleanor Ryan
Special Advisor Conseiller spécial	Peter Routledge
General Director Directeur général	Annette Ryan Cindy Shipton-Mitchell
Assistant Deputy Minister Sous-ministre adjoint	Leah Anderson
Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre déléguée	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques: [redacted]	
File no. No de dossier 2017FIN461107	Date SEP 22 2017

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Associate Deputy Minister **Sous-ministre déléguée**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
Assistant Deputy Minister **Sous-ministre adjoint(e)**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐

s.69(1)(g) re: (e)

Department of Finance Canada | Ministère des Finances Canada

MEMORANDUM NOTE DE SERVICE

Security classification / Classification de sécurité	UNCLASSIFIED
Originator/Auteur	Vincent Beauséjour
Our file / Notre référence	
Your file / Votre référence	2017FIN462093
Date	SEP 27 2017

TO / À: Minister of Finance

Memo to the Minister or Minister's Staff

Min's Office............... Orig. + 6
DMO.. 4
Assoc. DM & G7 Deputy...... 1
EFP................................ e-copy
C&C................................ e-copy
LAW................................ e-copy

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Distributional Impacts of the Interest Rate Tightening Cycle**

For information only.

Issue

This memo is intended to pair with our previous memo outlining the expected impacts of the interest rate tightening cycle (2017FIN459576), to provide a view of the characteristics of households most impacted by higher interest rates.

Summary

- The September survey of private sector economists forecasts a gradual increase in interest rates over the next few years, with short- and long-term rates expected to rise by about 150 basis points by the end of 2019 and 200 basis points by the end of 2021.
- The expected increase in interest rates over the next few years will have various impacts on Canadian households, including an increase in the cost of servicing debt. Most households would see an increase in debt payments (about 70% of households have debt) – and, naturally, households with high debt levels would see the largest increases.
- Highly indebted households – which we define as those with a debt-to-income ratio above 350% – represent 12% of all households. These households are more likely to be: middle income households; young to middle-aged; households in Ontario and B.C.; and mortgage holders.
- To illustrate how higher interest rates impact debt payments, we construct some hypothetical examples. If interest rates were to rise 2 percentage points, a typical household would see its annual debt payments increase by $3,300 (6.5% of income) if it had a debt-to-income ratio of 500%, but by only $650 (1.3% of income) if it had a debt-to-income ratio of 100%.
- Various factors could mitigate the impacts of higher interest rates on household debt payments. The most important factor is income growth, which in theory could fully offset the impacts, but

Director: Phil King (369-3609)
ADM: Nick Leswick (369-3346)

Canada

in reality will depend on the strength of the economy and each household's unique circumstances. Even in the absence of income growth, households could likely employ a combination of responses to fully offset the rise in debt payments, including extending the amortization on their debt, reducing their savings rate, or (as a last resort) selling financial assets. At the same time, these responses would worsen a household's financial position over the longer term.

- The department is conducting complementary analysis using loan-level mortgage origination data from OSFI, which includes actual debt service ratios, to identify at a more granular level which mortgage holders would be most impacted by higher interest rates.

Background

The September survey of private sector economists forecasts a gradual increase in interest rates over the next few years, with short- and long-term rates expected to increase by about 150 basis points by the end of 2019 and 200 basis points by the end of 2021.

This would have various impacts on households. It would raise the income on interest-bearing assets, but also raise the cost of servicing debt and could lower the growth in asset values (including house prices). There could also be indirect impacts on households if firms responded to higher interest rates by slowing the pace of hiring and investment. This note will primarily focus on the impacts of rising interest rates on households via the cost of servicing debt.

Statistics Canada's Survey of Financial Security (SFS) provides a comprehensive dataset on the debts and assets of households. While the analysis in this note is based on SFS 2012, [redacted]

Characteristics of households with debt

A large majority of Canadians would be impacted by higher interest rates, as 71% of Canadian households had debt in 2012. Table 1 breaks this down by income, age and region. Households with higher income are more likely to have debt, primarily reflecting the ability to carry mortgage debt. Younger households are more likely than older households to have debt, given a significant proportion of the latter group have paid off their mortgages. By region, the proportion of households holding debt is fairly similar across Canada.

Among households with debt, around half have relatively modest levels of debt, with a debt-to-income ratio (DTI) of less than 100% (Figure 1). At the same time, 17% of households with debt (or 12% of all households) are highly indebted, with a DTI above 350%. (See Annex I for distributions of household DTI ratios by income, age, region and other factors.)

s.21(1)(a)

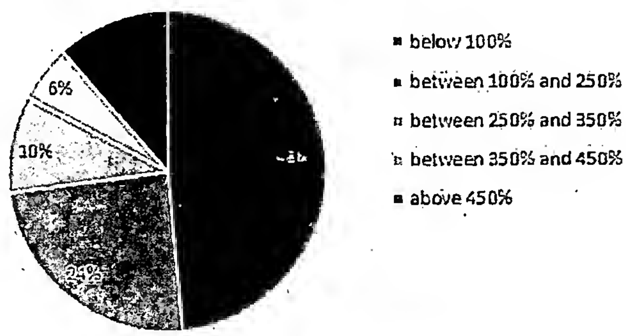
s.21(1)(b)

Table 1: Proportion of households with debt by income quintile, age group and regions

By Income Quintile	Proportion having debt (in %)
1st	49
2nd	66
3rd	77
4th	81
5th	83
By Age	
<35 years old	79
35-44 years old	85
45-54 years old	81
55-64 years old	70
>=65 years old	42
By Region	
Atlantic	76
Québec	71
Ontario	71
Prairies	72
British-Columbia	69

Sources: SFS 2012; Statistics Canada; Department of Finance calculations.

Figure 1: Distribution of Debt-to-Income (DTI) ratio amongst debtors in 2012

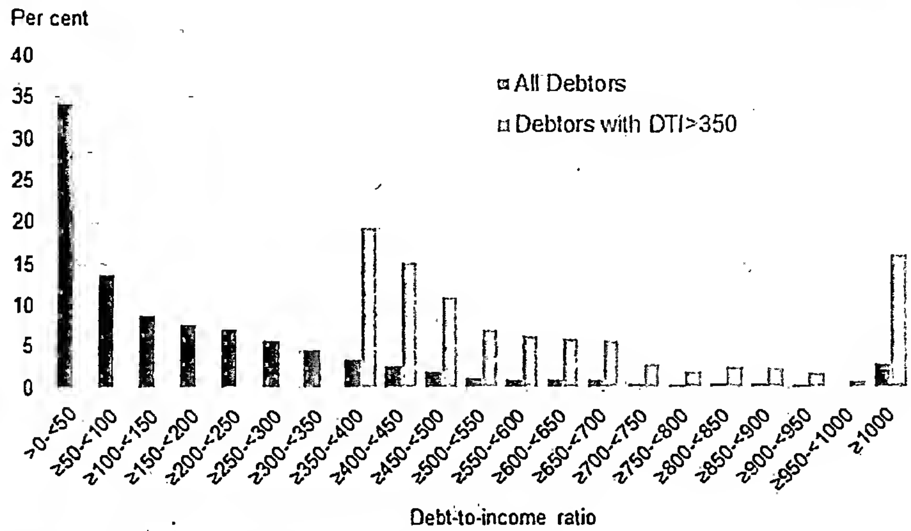


Sources: SFS 2012; Statistics Canada; Department of Finance calculations.

Characteristics of highly indebted households

Though highly indebted households represent only 17% of all households with debt, they account for nearly 50% of total household debt. Most highly indebted households have DTIs between 350% and 550%, though a substantial portion have even higher DTIs (Figure 2). Mortgage debt is the main driver of the higher indebtedness, as mortgage debt accounts for 85% of total debt for those with a DTI above 350%, compared to 70% for other debtor households.

Figure 2: Debt-to-income ratio distribution for all debtors and for highly indebted households



Sources: SFS 2012; Statistics Canada; Department of Finance calculations.

Who are these highly indebted households? Comparing the distribution of highly indebted households to the distribution of all households with debt (Figure 3), we see that highly indebted households are more likely to be:

- Middle-income households: While the distribution of highly indebted households is fairly even across income quintiles, the middle quintile and (to a lesser extent) the 2nd and 4th quintiles have the highest shares.[1] At the same time, compared to the population of all debtors, highly indebted households are slightly more represented in the low to middle income groups.

- Young- to middle-aged households: Households less than 45 years old represent 47% of all households with debt but a much larger proportion (63%) of highly indebted households.

- In Ontario and B.C.: The largest share of highly indebted households resides in Ontario, primarily because of the province's large population. However, while B.C.'s population is smaller than Quebec's, it represents a larger share of highly indebted households than Quebec.

- Mortgage holders: 87% of highly indebted households have a mortgage, compared to 48% for all debtors. Cutting the data another way, the share of highly indebted households is more than 30% for households with a mortgage, but less than 7% for households without a mortgage.

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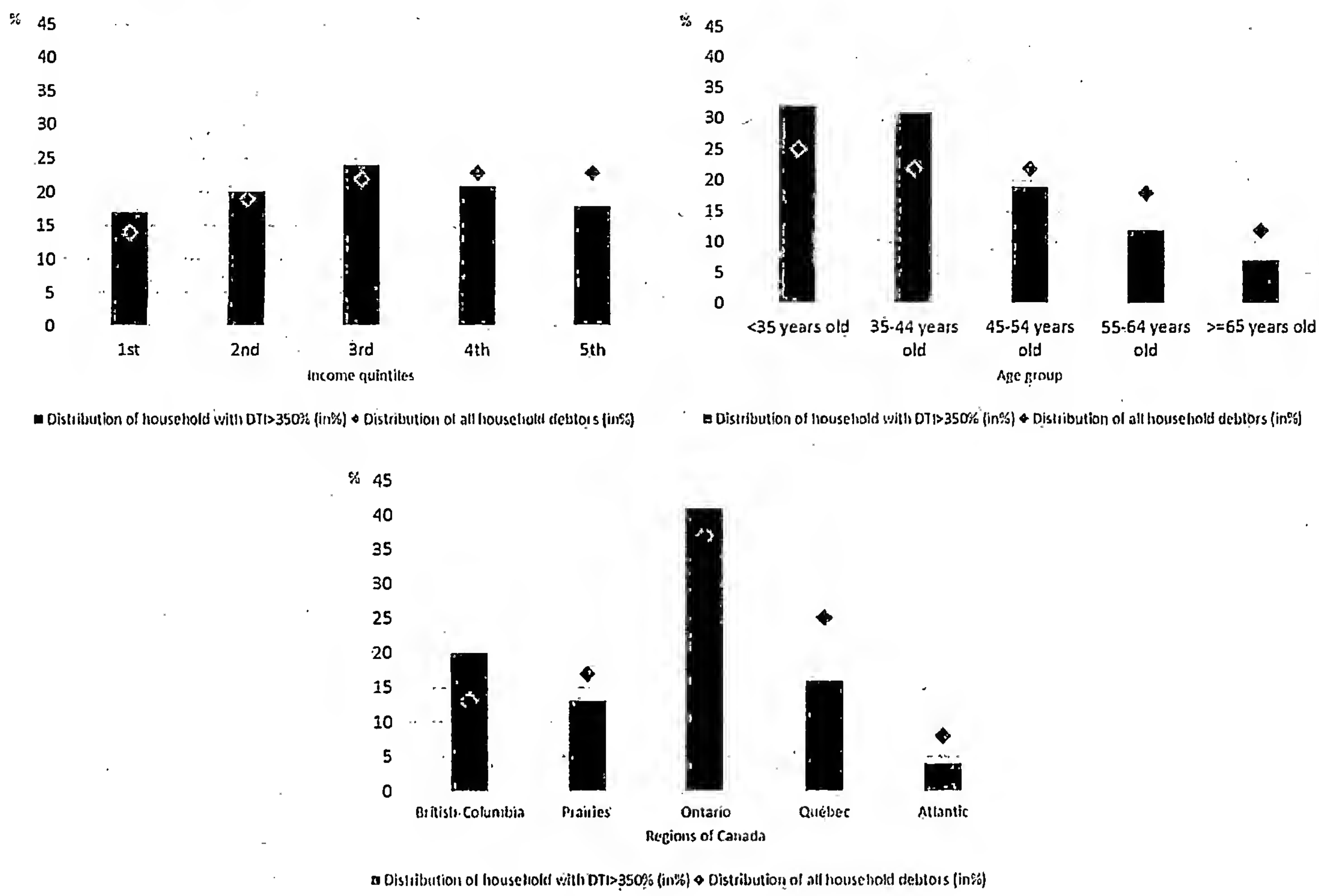
[1] Income quintiles are based on gross income of the entire SFS population, adjusted for family size.

- Self-employed: While self-employed households represent just 9% of all highly indebted households, this is larger than their share of the total debtor population (6%). This is because the share of self-employed households that are highly indebted is nearly twice as high as for all debtors.

Note that neither the level of education nor the number of earners in a household are key drivers of the proportion of highly indebted households.

Figure 3: Distribution of highly indebted household by income quintiles, age groups and regions. Comparison with the distribution of all debtors.



Sources: SFS 2012; Statistics Canada; Department of Finance calculations.

Hypothetical examples of the impact of higher interest rates on household debt payments

The SFS data we use in this analysis include debt levels, but not debt payments (nor interest rates and amortization periods, from which debt payments could be calculated). Nevertheless, to illustrate the potential impact of an increase in interest rates on household debt payments, we consider two hypothetical households where one has a DTI of 100% and the other has a DTI of 500%. The following additional assumptions are made for both households:

- After-tax income is $50,000;
- Mortgage debt represents ¾ of total debt;
- Remaining amortization is 20 years for mortgage debt and 10 years for consumer debt;
- Current interest rate is 3% for mortgage debt and 6% for consumer debt.

Table 2 shows the debt payments – both in dollar terms and as a share of income – for each household, given current interest rates and if interest rates were to rise by 1, 2 or 3 percentage points. For the modestly indebted household, higher interest rates would increase debt payments by $300-1,000 per year, representing 0.6-2.0% of income. For the highly indebted household, the impacts are much larger: debt payments would increase by $1,600-5,000 per year, or by 3.2-10.0% of income.

Table 2: Impact of higher interest rates on debt payments for different debt-to-income ratios

Interest rate increase	Annual total debt payments (in $)		Total Debt-service ratio (in %)	
DTI=100%	Level	*After shock vs current*	Level	*After shock vs current*
Current (3%, 6%)	4,219	-	8.4	-
+1 p.p	4,539	320	9.1	0.6
+2 p.p	4,872	653	9.7	1.3
+3 p.p	5,217	998	10.4	2.0
DTI=500%				
Current (3%, 6%)	21,095	-	42.2	-
+1 p.p	22,695	1,600	45.4	3.2
+2 p.p	24,360	3,265	48.7	6.5
+3 p.p	26,086	4,991	52.2	10.0

Factors that could mitigate the rise in debt payments

While the above hypothetical examples assume the increase in interest rates is immediate, in reality, interest rates will rise gradually, during which time household income will likely rise, providing an important offset:

- Higher income: Using our hypothetical example, if household income were to grow at 2% per year (in line with current wage growth), then by 2021 this would represent an increase of $4100 or 8.2% of income. If interest rates gradually rose by 2 percentage points over the period *and the households did not add to their debt levels*, this income gain would offset all of the increase in debt payments for even the highly indebted household. While this is

positive, a less sanguine way to look at it is that rising interest rates would wipe out the benefits of any income gains over a fairly extended period of time.

- Higher interest income: A rise in interest rates would lead to higher income from interest-bearing assets, such as coupon bonds, money market accounts, certificates of deposit, and savings accounts. However, interest income represents a very small share of household income: around 1% for the first four income quintiles and 2% for the top quintile (based on CRA tax data). Thus, this would provide only a small offset to higher debt payments. Using our hypothetical example, if interest rates rose by 2 percentage points, interest income would increase by just 0.7% of income.

As well, there are various adjustments households could make to mitigate the impacts of higher debt payments, including:

- Extend amortization: If a household has a mortgage loan-to-value ratio lower than 80%, it may be able to extend the amortization of the loan, which could offset a significant part of the increase in debt payments from higher interest rates. For example, if the remaining amortization on the mortgage is 20 years, but our hypothetical highly indebted household extends it to 25 years, this would offset half of the increase in debt payments if interest rates increased by 2 percentage points ($1500 or 3.0% of income), and it would fully offset the increase in debt payments if interest rates increased by 1 percentage point.

- Reduce savings rate: In the face of higher debt payments, households could reduce savings in order to maintain consumption levels. For example, for the highly indebted household in our hypothetical scenario, the savings rate would have to decline by 3.2-10.0% of income per year. However, the profile of highly indebted households (i.e., middle-income households, households age 44 or less) are also those having some of the lowest saving rates (Table 3). This suggests there is a limit to how much households could reduce their savings rates to cover higher debt payments.

Table 3: Household saving rates

By Income Quintile	Median Saving rates (in %)
1st	-9.3
2nd	0.2
3rd	8.2
4th	15.5
5th	25.1
By Age	
<35 years old	2.8
35-44 years old	7.5
45-54 years old	10.4
55-64 years old	11.6
>=65 years old	6.4
By Region	
Atlantic	7.9
Québec	9.2
Ontario	7.9
Prairies	3.5
British-Columbia	8.8

Sources: SHS 2009; Statistics Canada; Department of Finance calculations.

- Sell financial assets: As a last resort, households could sell some of their liquid financial assets to mitigate the rise in debt payments. Financial assets represent about 35% of disposable income, on average, for all debtors as well as highly indebted households. Using our illustrative example, this implies each household has $17,500 in financial assets. If the highly indebted household sold all its financial assets, it could use the funds in two ways:
    - Reduce its debt balance: As a result, the household's DTI would fall from 500% to 465%, which would offset close to half of the increase in debt payments if interest rates increased by 2 percentage points ($1400 or 2.8% of income).
    - Cover the increase in debt payments: In our example, the household could use the proceeds from the sale of its financial assets to cover the increase in debt payments for around 5 years if interest rates increased by 2 percentage points.

Overall, there are various factors that could mitigate the impacts of higher interest rates on household debt payments. The most important factor is income growth, but whether this will be sufficient to offset higher debt payments will depend on the strength of the economy and each household's unique circumstances. However, even in the absence of income growth, households could likely employ a combination of responses to fully offset the rise in debt payments (i.e., extending amortization, reducing savings rates or selling financial assets). At the same time, these responses would worsen a household's financial position over the longer term.

Note that the hypothetical examples above are only illustrative, as they rely on numerous assumptions. The department is conducting complementary analysis with OSFI loan-level data on federally regulated financial institutions' mortgage originations, which includes actual debt service ratios. The analysis will examine originations in the last three years to estimate the impact of rising interest rates on the distribution of debt service ratios, which borrowers would be most impacted, and potential factors that could mitigate the impacts.

ANNEX I: Distribution of Debt Across Debtors' Population, by Various Dimensions

Table A.1: Distribution by income[2]

Variable	Median debt-to-asset ratio	Median debt-to-income ratio	Debt-to-income ratio distribution	
Income quintile[3]				
1st (14% of the population)	35	64	<100 %	58%
			100-250%	13%
			250-350%	6%
			350-450%	4%
			>450%	19%
2nd (19% of the population)	29	76	<100 %	55%
			100-250%	18%
			250-350%	8%
			350-450%	4%
			>450%	15%
3rd (22% of the population)	30	120	<100 %	45%
			100-250%	24%
			250-350%	11%
			350-450%	8%
			>450%	12%
4th (23% of the population)	24	131	<100 %	45%
			100-250%	26%
			250-350%	13%
			350-450%	8%
			>450%	9%
5th (23% of the population)	17	129	<100 %	43%
			100-250%	32%
			250-350%	12%
			350-450%	6%
			>450%	8%

2 All tables include only people with debt. Source SFS 2012.

3 Total market income of the family adjusted for family size (market income divided by the square root of family size). Quintiles of all population.

Table A.2: Distribution by age group

Variable	Median debt-to-asset ratio	Median debt-to-income ratio	Debt-to-income ratio distribution	
Age group				
<35 years old (25% out of total population)	53	124	<100 %	47%
			100-250%	20%
			250-350%	11%
			350-450%	9%
			>450%	14%
35-44 years old (22% out of total population)	38	193	<100 %	33%
			100-250%	28%
			250-350%	14%
			350-450%	8%
			>450%	17%
45-54 years old (22% out of total population)	20	116	<100 %	46%
			100-250%	28%
			250-350%	11%
			350-450%	6%
			>450%	10%
55-64 years old (18% out of total population)	11	84	<100 %	54%
			100-250%	25%
			250-350%	8%
			350-450%	3%
			>450%	9%
>=65 years old (12% out of total population)	5	42	<100 %	70%
			100-250%	15%
			250-350%	5%
			350-450%	3%
			>450%	7%

Table A.3: Distribution by regions

Variable	Median debt-to-asset ratio	Median debt-to-income ratio	Debt-to-income ratio distribution	
Region of residence				
Atlantic (8% out of total population)	22	88	<100 %	53%
			100-250%	27%
			250-350%	10%
			350-450%	4%
			>450%	6%
Québec (25% out of total population)	20	77	<100 %	56%
			100-250%	23%
			250-350%	9%
			350-450%	4%
			>450%	8%
Ontario (37% out of total population)	27	120	<100 %	46%
			100-250%	23%
			250-350%	10%
			350-450%	7%
			>450%	13%
Prairies (17% out of total population)	29	137	<100 %	43%
			100-250%	26%
			250-350%	12%
			350-450%	8%
			>450%	11%
British-Columbia (13% out of total population)	27	146	<100 %	42%
			100-250%	20%
			250-350%	10%
			350-450%	8%
			>450%	20%

Table A.4: Other distributions:

Variable	Median debt-to-asset ratio	Median debt-to-income ratio	Debt-to-income ratio distribution	
Credit card balances usually paid off every month.				
Yes (62% out of total population)	19	113	<100 %	48%
			100-250%	24%
			250-350%	10%
			350-450%	5%
			>450%	13%
No (30% out of total population)	37	134	<100 %	44%
			100-250%	24%
			250-350%	12%
			350-450%	9%
			>450%	11%
Principal residence ownership status				
Own without mortgage (21% out of total population)	3	38	<100 %	75%
			100-250%	15%
			250-350%	3%
			350-450%	2%
			>450%	5%
Own with mortgage (48% out of total population)	35	246	<100 %	16%
			100-250%	36%
			250-350%	18%
			350-450%	11%
			>450%	20%
Do not own (32% out of total population)	36	31	<100 %	79%
			100-250%	12%
			250-350%	3%
			350-450%	2%
			>450%	4%
Major source of income for the family unit				
Wages and salaries (71% out of total population)	29	131	<100 %	44%
			100-250%	27%
			250-350%	12%
			350-450%	7%
			>450%	10%
Self-employed income (6% out of total population)	32	201	<100 %	35%
			100-250%	24%
			250-350%	12%
			350-450%	7%
			>450%	23%
Government income (14% out of total population)	19	48	<100 %	67%
			100-250%	12%
			250-350%	6%
			350-450%	2%
			>450%	13%
Other + investment	5	62	<100 %	59%

+ retirement pensions (9% out of total population)			100-250%	18%
			250-350%	5%
			350-450%	3%
			>450%	14%
Highest level of education of the major income earner.				
Less than high school (16% out of total population)	20	51	<100 %	64%
			100-250%	17%
			250-350%	6%
			350-450%	4%
			>450%	8%
High school diploma (26% out of total population)	26	94	<100 %	51%
			100-250%	23%
			250-350%	9%
			350-450%	7%
			>450%	11%
Non university post certificate (28% out of total population)	29	124	<100 %	46%
			100-250%	24%
			250-350%	12%
			350-450%	7%
			>450%	12%
University degree or certificate (29% out of total population)	24	146	<100 %	42%
			100-250%	26%
			250-350%	12%
			350-450%	6%
			>450%	14%
Number of earners aged 15 or over in the family unit.				
None (21% out of total population)	11	40	<100 %	70%
			100-250%	12%
			250-350%	5%
			350-450%	3%
			>450%	11%
One (37% out of total population)	29	91	<100 %	52%
			100-250%	19%
			250-350%	9%
			350-450%	5%
			>450%	15%
Two (31% out of total population)	29	160	<100 %	38%
			100-250%	30%
			250-350%	14%
			350-450%	8%
			>450%	10%
Three or more (11% out of total population)	19	117	<100 %	46%
			100-250%	29%
			250-350%	11%
			350-450%	6%
			>450%	8%

Table B: Total Debt decomposition: (in billion of $)

By income quintile	*1st*	*2nd*	*3rd*	*4th*	*5th*
Total debt	102.3	187.3	285.7	309.6	440.7
Total Mortgage debt	66.9 (65.4%)	141.8 (75.7%)	218. (76.6%)	246.0 (79.5%)	346.7 (78.7%)
Credit card and installment debt	6.4 (6.3%)	6.2 (3.3%)	7.6 (2.7%)	7.0 (2.3%)	7.8 (1.8%)
Debt value of student loans	8.4 (8.2%)	7.5 (4.0%)	4.9 (1.7%)	4.7 (1.5%)	2.8 (0.6%)
Debt on vehicle loan + other vehicles	6.3 (6.1%)	12.1 (6.5%)	16.0 (5.6%)	19.2 (6.2%)	22.0 (5.0%)
Line-of-credit debt (home and other line of credit)	11.0 (10.7%)	14.5 (7.7%)	34.0 (11.9%)	27.8 (9.0%)	56.6 (12.8%)
Other non-mortgage debt	3.3 (3.2%)	5.1 (2.7%)	4.4 (1.6%)	4.9 (1.6%)	4.9 (1.1%)
Total net worth	*352.3*	*652.4*	*889.4*	*1129.4*	*2367.3*
By age group	**<35 years old**	**35-44 years old**	**45-54 years old**	**55-64 years old**	**>=65 years old**
Total debt	**301.0**	**423.0**	**326.0**	**205.0**	**78.4**
Total Mortgage debt	241.0 (80.1%)	352.0 (83.2%)	246.0 (75.5%)	144.0 (70.2%)	45.1 (57.5%)
Credit card and installment debt	7.0 (2.3%)	7.5 (1.8%)	9.4 (2.9%)	8.0 (3.9%)	3.3 (4.2%)
Debt value of student loans	15.8 (5.2%)	4.7 (1.1%)	4.4 (1.3%)	3.1 (1.5%)	0.3 (0.4%)
Debt on vehicle loan + other vehicles	17.0 (5.6%)	19.3 (4.6%)	18.7 (5.7%)	13.9 (6.8%)	6.8 (8.6%)
Line-of-credit debt (home and other line of credit)	16.1 (5.3%)	33.9 (8.0%)	42.6 (13.1%)	31.0 (15.1%)	20.5 (26.1%)
Other non-mortgage debt	4.2 (1.4%)	6.0 (1.4%)	4.6 (1.4%)	5.7 (2.8%)	2.4 (3.1%)
Total net worth	*521.0*	*1060.0*	*2010.0*	*2290.0*	*2181.0*
By region	**Atlantic**	**Québec**	**Ontario**	**Prairies**	**B.C.**
Total debt	**65.3**	**247.0**	**521.0**	**262.0**	**238.0**
Total Mortgage debt	45.0 (68.9%)	185.0 (74.9%)	409.0 (78.5%)	196.0 (74.8%)	192.0 (80.7%)
Credit card and installment debt	2.3 (3.5%)	7.4 (3.0%)	13.3 (2.6%)	6.7 (2.6%)	5.6 (2.4%)
Debt value of student loans	2.8 (4.2%)	3.2 (1.3%)	12.3 (2.4%)	4.8 (1.8%)	5.2 (2.2%)
Debt on vehicle loan + other vehicles	7.6 (11.6%)	21.6 (8.7%)	22.4 (4.3%)	16.1 (6.1%)	7.9 (3.3%)
Line-of-credit debt (home and other line of credit)	6.2 (9.5%)	26.1 (10.6%)	56.5 (10.8%)	32.7 (12.5%)	22.7 (9.5%)
Other non-mortgage debt	1.5 (2.2%)	3.6 (1.5%)	7.3 (1.4%)	5.7 (2.2%)	4.6 (1.9%)
Total net worth	*384.0*	*1700.0*	*3130.0*	*1470.0*	*1370.0*

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Prepared by (name/initials/division) Préparé par (nom/initiales/division) Vincent Beauséjour	
In consultation with (name/initials/branch(es)/division(s)) En consultation avec (nom/initiales/direction(s)/division(s))	
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Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques: **Distributional Impacts of the Interest Rate Tightening Cycle**	
File no. No de dossier 2017FIN462093	Date

Associate Deputy Minister & G7 Deputy for Canada **Sous-ministre délégué et représentant du Canada au G7**	**(Sign on behalf of DM)** **(Signer au nom du SM)**	☐
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MEMORANDUM NOTE DE SERVICE

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2017FIN459576

Date
AUG 1 1 2017

Memo to the Minister or Minister's Staff

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TO
À
Minister of Finance

FROM
DE
Paul Rochon

SUBJECT
OBJET
Interest Rate Tightening Cycle – Expected Impacts on the Canadian Economy

For information only.

Issue

This note provides background info on: (i) the size and pace of the current projected interest rate tightening cycle; (ii) the channels through which higher interest rates affect the economy, and what the magnitude of those economic effects are expected to be in the current cycle; (iii) how previous tightening cycles have affected the economy; and, (iv) whether the impacts of this cycle will be different because of higher household debt levels.

This note also includes an annex presenting estimates of how much debt accumulation would have to slow to reduce the household debt ratio back to previous levels, and how this would affect GDP growth.

Background:

i. Current Projected Interest Rate Tightening Cycle

The June survey of private sector economists forecasted a gradual increase in short term interest rates starting in 2018Q1 and continuing to the end of the forecast horizon in 2021 (**Figure 1**[1]). Over this time the forecasters expect short-term interest rates to increase 190 basis points (or roughly eight 25 basis point rate hikes by the Bank of Canada). This survey was completed in mid-June, *before* the Bank of Canada's notable change in policy bias, and subsequent 25 bps rate hike on July 12th. In this context, going forward, we expect that rate increases will largely

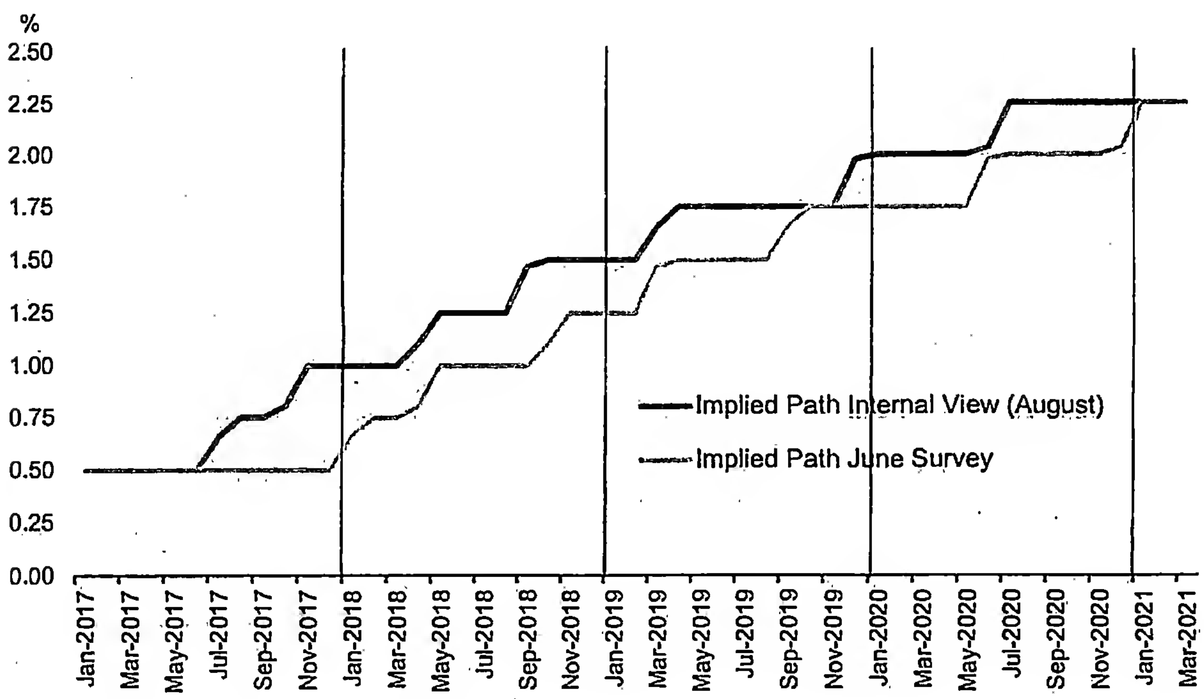
[1] The actual private sector average interest rate outlook – because it is the mean of 14 individual forecasts – shows a smooth trajectory (as shown in Figures 2 and 3 below). The precise path shown in Figure 1 is imputed by comparing changes in the survey average rate to announced fixed action dates, and inferring the specific rate hike date.

ADM: Nick Leswick, 369-3346
Director: Phil King, 369-5609

Canada

follow the trajectory set out in the June survey, albeit advanced by about two to three quarters. Markets are currently anticipating a second 25 bps rate hike in October.

Figure 1: Implied monthly paths for short term interest rates

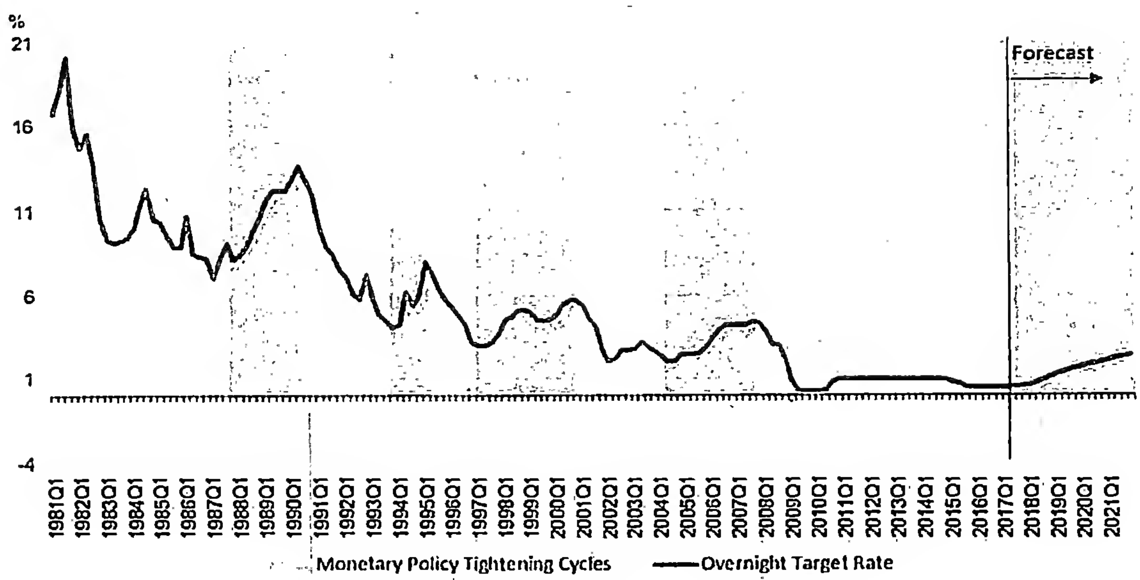


Source: Bank of Canada, Department of Finance.

Compared to previous monetary tightening cycles[2] this current projected cycle would be the most gradual (at 18 quarters long compared to an average of 12) and smallest (increase of 190 basis points compared to an average of 362) in nearly four decades **(Figures 2 and 3).** It is also worth noting that even with the full increase in short-term interest rates assumed in the June survey, rates would still be historically low, at around only 2.5% by the end of the forecast horizon. For comparison, during the last tightening cycle from 2004 to 2007, rates were around 4.5% by the end of the cycle. This reflects a much lower estimated 'neutral' rate of interest – the policy rate which would prevail when output growth is equal to its potential rate and inflation equal to its target rate. This, in turn, is due to lower estimated potential GDP growth due to factors such as population aging, as well as elevated levels of global savings.

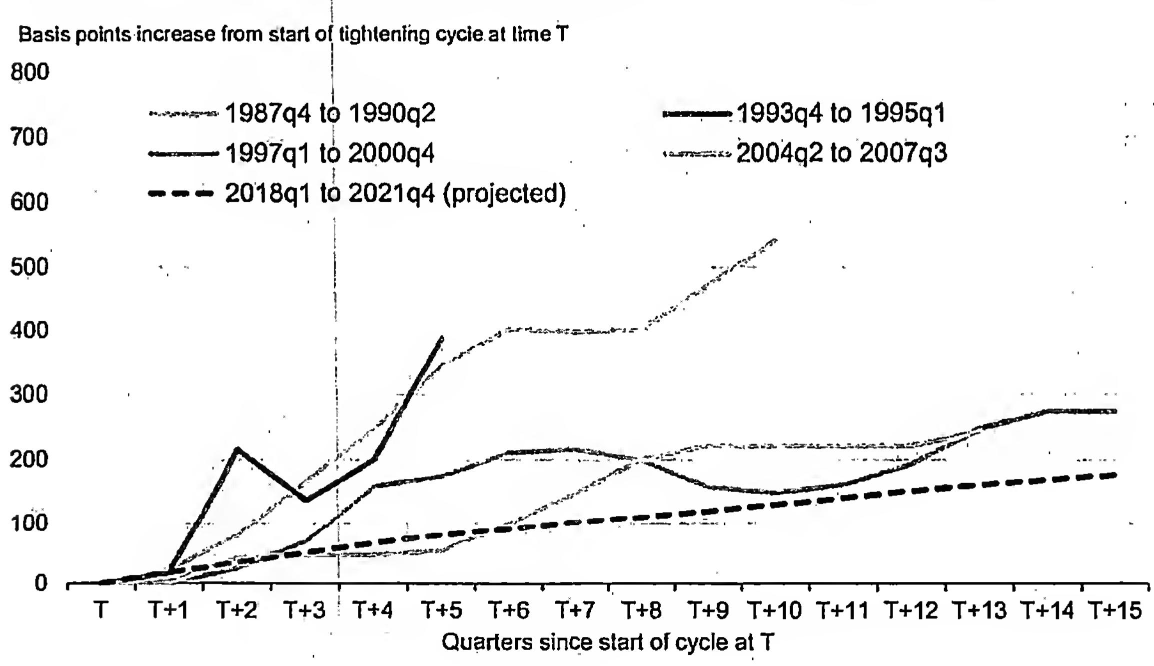
[2] Tightening cycles where increases in interest rates were either fairly substantial and lasted for longer than one year. We excluded other policy rate increases, in for example 2002 to 2003 and in 2010, as they represented small adjustments to rates, rather than full tightening cycles.

Figure 2: Forecast overnight rate



Source: Bank of Canada, Department of Finance June 2017 survey.

Figure 3: Increases in the overnight target during previous tightening cycles



Source: Bank of Canada, Department of Finance June 2017 survey.

ii. Estimated Impact on the Canadian Economy

There are two main ways in which higher interest rates will affect the economy:

- First, higher rates will make existing debt loads costlier to service. Households with variable-rate loans, mortgage or otherwise, will pay more to service their debt. As most households have relatively fixed incomes in the short term, they will have less money available to them for consumption. However, the impact on consumption would be mitigated if households can, and choose, to save less – or, borrow more.
- Second, higher interest rates will weigh on interest sensitive expenditures by making them more expensive, notably consumer durables (e.g. automobiles, furniture), housing, and also business investment.

Given the slow and gradual character of this expected tightening cycle, it is most likely that the economy will very steadily absorb projected interest rate increases – i.e., through gradual adjustments to consumption, savings and investment, as a result of the eventual re-pricing of debt. In this context, it is important to consider that mortgage debt accounts for two-thirds of total household debt for the average Canadian household – and, that about 70 percent of all mortgages in Canada are at a fixed-rate, with the large majority of those mortgages under a five-year term. In this context, Canadian household mortgage debt will slowly be re-priced over the medium-term, and in the context of strengthening employment, income, and overall economic growth.

The June private sector survey already embodies the modest braking effects of higher interest rates. The survey shows that real economic growth should moderate from an average of about 3.4% since mid-2016 to around 2% in late 2017 and early 2018, before slowing further to about 1.7% thereafter. Implicitly, the June survey embodies the view that ongoing economic growth will lead to rising employment levels, falling unemployment rates and rising incomes, all of which offset – and indeed necessitate – rising interest rates.

[redacted]

s.21(1)(a)

s.21(1)(b)

[redacted]

[redacted]

iii. Comparison to Previous Tightening Cycles

During previous tightening cycles the Bank of Canada began raising rates around the time that excess slack had been eliminated, or when the estimated output gap had closed or turned positive. In the July *Monetary Policy Report*, the Bank anticipates the output gap will close "around the end of 2017". While no two tightening cycles have been alike there have been some common trends present in each episode:

- **On average, after the start of a tightening cycle (the first quarter in which the Bank of Canada raises interest rates), real GDP growth has slowed modestly for about three quarters thereafter (Figure 4a).**
- **The main channels for the slowdown in real GDP are in slightly slower consumption growth, and slower residential investment (Figure 4b).**
- **As a result of higher interest payments the debt service ratio of households starts to increase along with interest rates (Figure 4c).**
- **A very modest slowdown in house prices, lasting only about two quarters, has also happened on average during past cycles (Figure 4d).**

[redacted]

s.21(1)(a)

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Figure 4a: Real GDP Growth

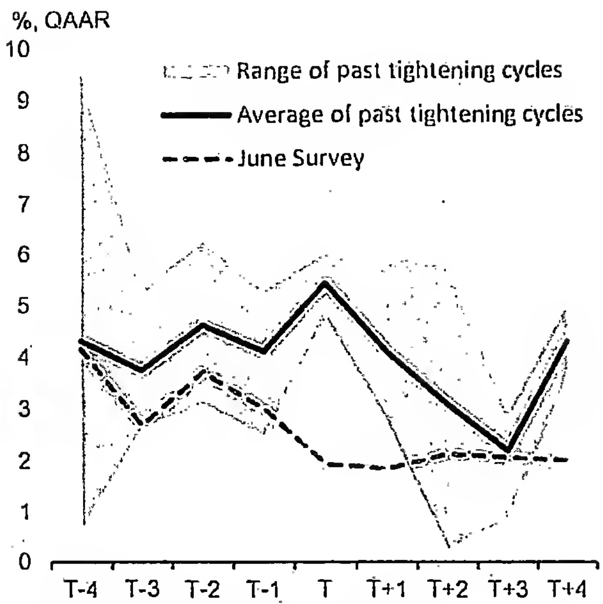


Figure 4b: Residential Investment Growth

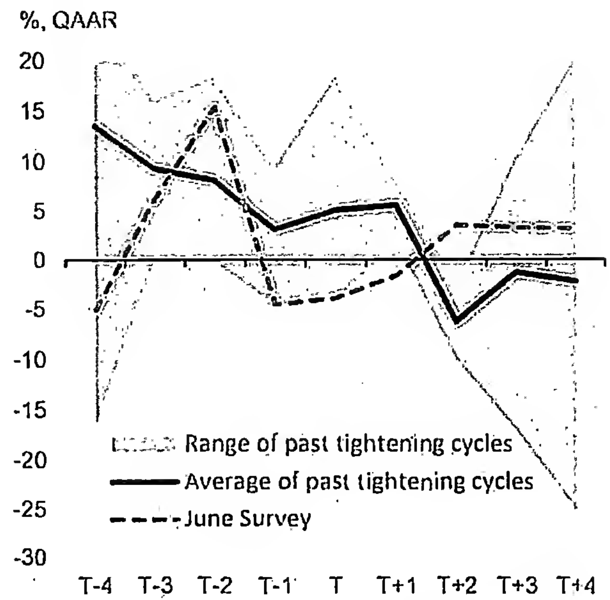


Figure 4c: Debt Service Ratio

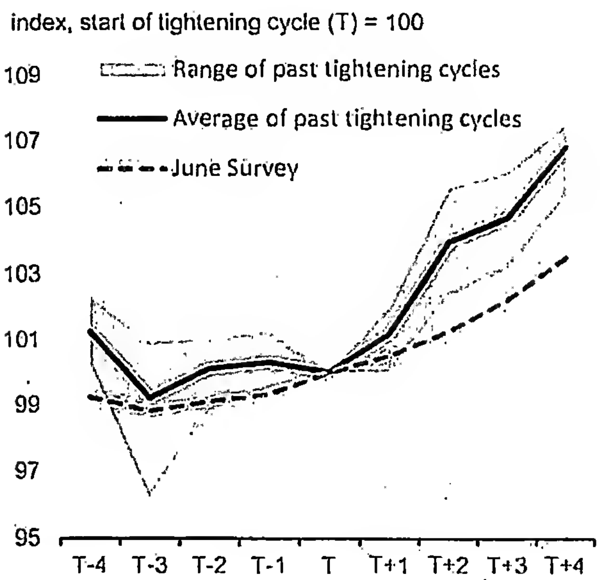
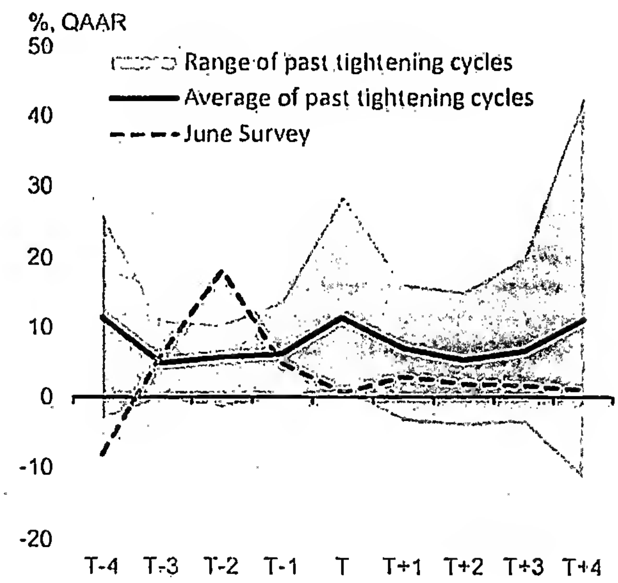


Figure 4d: House Price Growth



Note: On the horizontal axis 'T' is the first quarter in which the Bank of Canada begins to raise interest rates. For the June expected path for each variable (red dashed line) 'T' is 2017Q3 as the Bank raised rates for the first time in July 2017.
Source: Statistics Canada, CREA, Department of Finance Calculations.

iv. Current Tightening Cycle in the Context of Historically High Household Debt

Intuitively, household debt levels now being higher than in the past [redacted]

In short, higher interest rates lead to higher interest charges for debtors – but, conversely, higher interest income for creditors. [redacted]

That said, the effect of the initial debt level is small. [redacted]

This finding can be rationalized by the fact that households, as noted above, either have fixed interest rates on their debt or very often have options to immediately lock in the rate on their debt. This insulates them from further rate increases and allows them to keep servicing their debt, particularly in the context of a growing economy, with rising employment and incomes.

Despite this, it is possible to think of circumstances where the level of debt [redacted] This would require that a rise in interest rates creates a much larger increase in default rates under high debt than under lower debt, amplifying the impact of interest rate shocks. [redacted] For example, while the 5-year mortgage rate increases by about 150 basis points between early 2005 and late 2007, the percentage of mortgage in arrears remained stable at 0.3%.

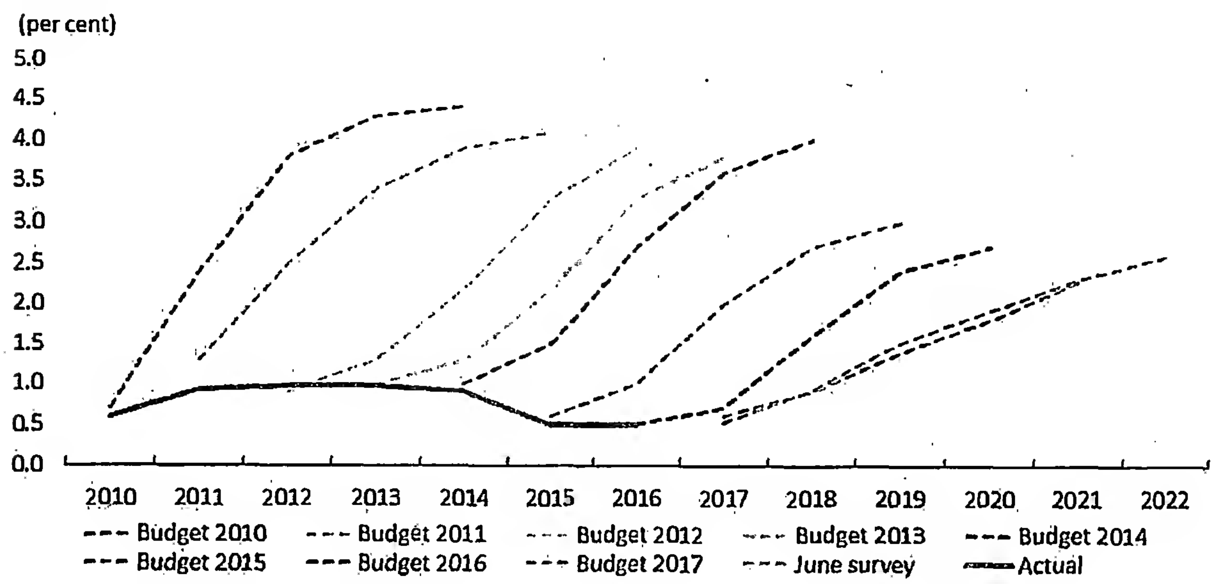
s.21(1)(a)

s.21(1)(b)

v. *Risk Analysis*

In looking at the current projected cycle, it is important to recognize that interest rates in Canada will not follow a predetermined path to a predetermined level – rather, the tightening cycle is a dynamic process, under the control of the Bank of Canada based on prevailing economic conditions. To illustrate this flexibility, **Figure 5** below shows the projected path of short term interest rates from prior private sector surveys, compared to the actual rate path. Clearly, it is difficult to predict the evolving economic environment, and the resulting monetary policy response.

Figure 5: Private sector survey 3-month T-bill rate vs. actual



Source: Bank of Canada, Department of Finance.

Beyond this forecast uncertainty, there are other factors which will influence the interest rate tightening cycle and its impacts – for example:

- The U.S. is also in the early stages of a monetary policy tightenging cycle, including 'normalizing' its balance sheet. This process could have implications for Canadian interest rates. For example, during the 2013 'Taper Tantrum', when the Fed announced it would slow the pace of its QE operations, U.S. medium and long rates spiked by about 100 bps, and about 90% of that increase passed through to Canadian rates.
- There is also some uncertainty as to how higher rates will be passed through to bank lending rates, including mortgage rates. For example, only about two-thirds of the Bank of Canada's two 2015 interest rate cuts were passed on to consumers and businesses. Banks may or may not pass-on the full value of future rate hikes through to their lending rates.

Annex

A. Household Deleveraging Scenario

The household debt to disposable income ratio (D/I) has been rising over the past two and a half decades, up from 90% in 1990 to about 170% in 2016. While the debt ratio is high historically speaking, there is no way of precisely determining whether the current ratio is *too high* – i.e., there is no estimate of the exact 'optimal' level of household debt.

That being said, debt ratios which are *too low* and *too high* have clear negative consequences for the economy. Household debt which is too low would lead to lower social welfare. For example, with too little debt among those able to afford it, home ownership rates would be lower than optimal. Conversely, debt which is too high can result in deeper and more protracted recessions. Ultimately, what drives the sustainability of debt is whether carrying it is affordable and whether the distribution of that debt poses any systemic financial risk.

[redacted]

However, this estimate is subject to uncertainty as these are static calculations that do not take into account possible changes in household behaviour, spillovers to the rest of the economy, changes in prices, etc. As well, these illustrative scenarios are silent as to what policy changes might induce such slowdowns in household debt growth. International experience suggests that substantial, rapid declines in household D/I usually only occur in the context of a recession.

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Associate Deputy Minister & G7 Deputy for Canada Sous-ministre délégué et représentant du Canada au G7	Rob Stewart
Associate Deputy Minister Sous-ministre délégué	
Deputy Minister Sous-ministre	Paul Rochon
Remarks Remarques: **Interest Rate Tightening Cycle – Expected Impacts on the Canadian Economy**	
File no. No de dossier 2017FIN459576	Date AUG 11 2017

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Kathryn McCauley

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Your file / Votre référence
2017FIN461906

Date
SEP 28 2017

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Debrief of the quarterly Financial Institutions Supervisory Committee meeting of September 19, 2017**

For information only.

On Tuesday, September 19, the Office of the Superintendent of Financial Institutions (OSFI) chaired the quarterly Financial Institutions Supervisory Committee (FISC) meeting. Below are highlights of the discussion. The annex provides additional background information on other agenda items. Information regarding the business or affairs of a financial institution, foreign bank, bank holding company or insurance holding company as well as any information received by any member of FISC in the course of a FISC meeting must be treated confidentially as per the *Office of the Superintendent of Financial Institutions Act.*

Key Discussion Items

[redacted]

Canada

ADM: Leah Anderson (613-369-3620)
Director: Eleanor Ryan (613-369-3904)

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Deputy Minister Sous-ministre	
Remarks Remarques: Debrief of quarterly FISC meeting September 19, 2017	
File no. No de dossier 2017FIN461906	Date SEP 27 2017

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Originator/ Auteur	Colin Guldimann
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Your file / Votre référence	2017FIN461940
Date	SEP 21 2017

TO / À: Minister of Finance

FROM / DE: Paul Rochon

SUBJECT / OBJET: **Meeting with the Canadian Real Estate Association (CREA)**

For information. To be read before your meeting with CREA on September 25th.

You will be meeting with representatives of CREA on September 25th, 2017.

Key Messages:

- **The Government is concerned with access, stability and competition with respect to housing finance.**
- **Household indebtedness is particularly acute around Vancouver and Toronto, but borrower vulnerabilities are not limited to these two cities.**
- **The Government is tracking the impact of recent housing measures and appreciates CREA's views on this subject.**

Issue

CREA is a trade association that represents more than 100,000 real estate brokers, agents and salespeople working through real estate boards and associations across Canada. CREA compiles housing market statistics, including sales and home price data, which receive a high degree of attention among market participants and the media.

CREA did not indicate its priorities for the meeting. However, recent submissions to both the House of Commons Standing Committee on Finance (FINA) and the Department's consultation on Lender Risk Sharing have highlighted its concerns about the impact of continued government intervention in housing markets. We have provided a summary of the specific issues they may raise along with suggested speaking points (provided in Annex A).

ADM: FSP – Leah Anderson (369-3620)
Director: CMD – Elisha Ram (369-3968)

Canada

Background

CREA Concerns

CREA has argued that recent housing finance measures, such as the changes you announced in October 2016 for insured mortgages, have limited the size of mortgages available to some homebuyers, and recommends the Government consider providing additional aid for first-time home buyers. CREA also notes that federal and provincial governments have recently implemented numerous changes to housing policy, which have had cumulative impacts on the market whose full scope is yet to be determined. Specifically:

- CREA has expressed concerns that the qualifying rate stress test for insured mortgages you introduced in October 2016 will reduce access to the housing market by limiting the size of available mortgages, especially for first time home buyers (who comprise the majority of high-ratio borrowers).
  - Prior to the October announcement, the stress test was only required for insured mortgages that did not have a five-year fixed interest rate. The new rules bring consistency to the insured space and help ensure homebuyers can afford their mortgages even if their circumstances change.
- CREA underscores that market conditions in Toronto and Vancouver differ significantly compared to elsewhere in Canada.
  - Although affordability challenges are particularly acute around Vancouver and Toronto, borrower vulnerabilities are not limited to only these two cities. Recent housing finance changes help ensure that all Canadians are taking on mortgages they can afford.
- Given its concerns about housing affordability, CREA argues that the Government should expand the Home Buyer's Plan (HBP)– HBP allows borrowers to withdraw a down payment from their Registered Retirement Savings Plan (RRSP) and repay it over time.
  - The Government currently maintains support to facilitate homeownership, but is also focused on setting prudent rules that ensure the long-term stability of the financial system.
  - House prices reflect both the demand for and the supply of housing. Increasing the flexibility of the HPB would be inconsistent with recent federal housing policy by fueling demand without a corresponding increase to supply, which could potentially erode affordability further.

Market Developments

CREA may share recent data on how regional housing markets are evolving, including in response to policy changes by federal and provincial governments.

Housing markets in the Greater Golden Horseshoe (GGH) cooled in the second quarter of 2017, with prices and sales in the Greater Toronto Area (GTA) down in August from their March 2017 peak (by 13 per cent and 43 per cent, respectively). These dynamics likely reflect a

number of factors, including the impacts of recent measures by the Ontario government, the October 2016 measures, and market reaction to stress at Home Capital Group.

By contrast, Metro Vancouver has shown renewed strength in prices (+19 per cent) and sales (+50 per cent) from the lows seen in January 2017, following the introduction of the B.C. foreign buyers tax. Recent growth in prices has been driven by the condominium segment, as well as single family homes in areas outside of the city. CREA may point to recent market developments, particularly in the GTA, as cause for the Government to withhold from introducing any additional housing measures, to provide observers time to adequately assess the full effects of recent changes.

Recent Federal Policy Measures

In October 2016, you announced changes to regulations governing mortgage insurance eligibility criteria, to address concerns related to high household indebtedness and imbalances in the housing market. The changes included ensuring all new insured mortgages (including those with 5-year fixed rate terms) undergo a mortgage rate stress test and loans that lenders insure using portfolio insurance and other discretionary low loan-to-value (LTV) ratio mortgage insurance meet loan eligibility criteria that previously only applied to high LTV ratio mortgage insurance. These criteria include maximum home purchase prices of $1 million, debt-service ratio limits, and no refinances.

In addition, the Office of the Superintendent of Financial Institutions (OSFI) altered capital requirements for mortgage insurers in January 2017. The changes increased the amount of capital insurers need to hold for certain loan segments, including portfolio insurance, which led to large increases in premiums. Coupled with the October changes to eligibility criteria for low-ratio insurance, these changes are likely to reduce portfolio insurance volumes going forward.

Changes to Guideline B-20

CREA will likely note that forthcoming changes to OSFI's *Guideline B-20* will have a negative impact on the mortgage activity. *Guideline B-20* governs residential mortgage underwriting for federally regulated financial institutions (including uninsured lending). The forthcoming changes include a stress test similar to the insured space. See Annex B for greater detail on OSFI's proposed changes to *Guideline B-20.*

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Annex A – Suggested Speaking Points

Impacts of Recent Mortgage Rule Changes

[Responsive – if asked whether more measures are being considered]

- The Government is concerned with access, stability and competition with respect to housing.
- The Government is tracking the rollout of the recent measures, but it is too early to assess their overall impacts on the market.
- The Government remains committed to maintaining a healthy, competitive and stable housing market.

[Responsive – if regional concerns are raised with respect to the October measures]

- The Government has a responsibility to spot and contain risks in the housing market to protect the investment that Canadians have made in their homes.
- The combination of low interest rates and rising home prices has encouraged many Canadians to take on increasing levels of debt to get into the housing market.
- This situation is particularly acute around Vancouver and Toronto, but borrower vulnerabilities are not limited to only these two cities.

[Responsive – if asked about impacts of recent housing finance measures]

- Our analysis suggested the measures would have a modest drag on housing activity in the short term, and that these would dissipate over time as buyers adjust to the new rules.
- It will take time to fully assess the impacts of these measures.
- We strongly believe that by targeting safer forms of lending, these measures will promote balanced economic growth and long-term stability in the housing market and economy.
- High levels of debt make Canadians more susceptible to changing economic conditions, no matter what part of the country they live in.

Home Buyers Plan

[Responsive – if pressed on expanding the Home Buyers' Plan]

- Policies to further boost homeownership by stimulating demand without a corresponding increase in supply would exert more pressure on house prices.
- With respect to housing affordability, at this time, the Government is prioritizing investments to support Canadian households that need it most.
- We are committed to releasing a comprehensive National Housing Strategy in 2017.

OSFI Guideline B-20

[Responsive – if pressed about forthcoming changes to Guideline B-20]

- OSFI's proposed measures reinforce these principles and build on the prudent steps the Government took last fall to address housing vulnerabilities through changes to the insured mortgage rules.
- These measures will help ensure homebuyers are able to afford their homes if economic circumstances change, promoting the stability of the Canadian housing market and economy over the long term.

Housing Supply

[Responsive – if pressed on policies to promote housing supply]

- All governments have a role to play in addressing housing issues. As Minister of Finance, I have taken steps to ensure the stability of housing markets nationally.
- Provincial and municipal governments have an important role in ensuring adequate housing supply. That's why our Government is working closely with the provinces and municipalities as part of the Federal Provincial Municipal Working Group on housing.

Annex B: Proposed Changes to *Guideline B-20*

The Office of the Superintendent of Financial Institutions (OSFI) is proposing several changes to its mortgage underwriting *Guideline B-20* for federally regulated lenders, which would help contain vulnerabilities in the uninsured space. The main changes proposed include:

- Applying a mortgage rate "stress test" of at least 200 basis points to all uninsured mortgages originated by federally regulated lenders.

- Advising lenders to take a "critical view" of house prices when calculating loan-to-value (LTV) ratios of non-conforming loans.

  - Currently, the size of non-conforming loans is limited to 65 per cent of the current value of the property (i.e., requiring a minimum down payment of 35 per cent). Discounting property values when calculating LTV ratios will effectively increase minimum down payment requirements for non-conforming loans.

  - OSFI is also advising lenders to make similar adjustments to property values when calculating loan limits of home equity lines of credit (HELOCs), which must not exceed 65 per cent of the current value of the property.

- Lenders are not to arrange co-lending relationships with other lenders for the purposes of circumventing minimum down payment and other LTV requirements.

The measures appear well-targeted at vulnerabilities in uninsured mortgage lending, and build upon OSFI's public statements and direct conversations with lenders over the past year.

The stronger qualifying rate requirement would reduce the number of highly-indebted homebuyers going forward, while the adjustment to the LTV limit of non-conforming loans would ensure riskier borrowers have additional equity in the event of a sharp fall in house prices. Limiting co-lending would reduce involvement of federally regulated lenders in a small but risky segment of the mortgage market.

OSFI concluded its public consultation process on August 17, 2017. The finalized revisions to *Guideline B-20* are expected to be released in mid-October.

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Department of Finance Canada — Ministère des Finances Canada

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